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ABSTRACT

This curriculum guide for the Oklahoma Farm Business Management Program contains four instructional units that provide students with the necessary knowledge to complete an accurate income tax return. Each unit of instruction includes some or all of these components: performance objectives, suggested activities for the instructor, information sheet, transparency masters, handouts, assignment sheets, job sheets, tests, and answers to tests and assignment sheets. The four unit topics are as follows: income tax estimates, income tax management, depreciation, and income tax forms. (YLB)

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INCOME TAX

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FOREWORD

Income tax is an extremely important subject to all U. S. citizens. However, many people fail to keep the records necessary to file their income taxes properly. Not only must a farmer/rancher understand the basic income tax laws, he or she must also understand what forms to complete when filing income tax.

The *Income Tax* curriculum will provide class members with the necessary knowledge to complete an accurate income tax return. Keeping good, complete records will help the class member file a complete income tax return and, in the event of a tax audit, participants will be more secure with their calculations.

With proper planning, the materials in *Income Tax* will provide class members in the Farm Business Management program with a solid foundation of knowledge on which to base his/her decisions.

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Oklahoma Department of Vocational and
Technical Education

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USE OF THIS PUBLICATION

INSTRUCTIONAL UNITS

Income Tax includes four instructional units. A standard format was established in 1970 for development of instructional materials for all Oklahoma vocational teachers. This format includes nine basic components that form a unit of instruction: performance objectives, suggested activities for the instructors, information sheet, transparency masters, handouts, assignment sheets, job sheets, tests, and answers to tests and assignment sheets. Depending on specific objectives, there may or may not be transparency masters, assignment sheets, and job sheets included in each unit of instruction.

All of the unit components "zero in" on measurable and observable learning outcomes. Instructors are encouraged to supplement, personalize, localize, and motivate with these materials in order to develop a complete teaching/learning process.

Units of instruction are designed for use in more than one lesson or class period of instruction. Careful study of each unit of instruction by the instructor will help him or her determine the following

- Amount of material that can be covered in each class period
- Skills that must be demonstrated
  1. Supplies and equipment needed
  2. Amount of practice needed
  3. Amount of class time needed for demonstrations
- Supplementary materials, such as pamphlets and filmstrips, that must be ordered
- Resource people who must be contacted

Performance Objectives (white pages)

Each unit of instruction is based on the performance needed for successful employment in an occupational area. Performance objectives are stated in two forms: unit objectives, stating the subject matter to be covered in a unit of instruction; and specific objectives, stating the performance necessary to reach the unit objective.

Since the objectives of the unit provide direction for the teaching/learning process, it is important that instructors and class members have a common understanding of the intent of the objectives. Following is a list of performance terms, their meanings, and behavioral synonyms that may have been used in this material.

- **Name**—The individual supplies a name for objects, events, or people.
  Behavioral synonyms: Label, list, letter, record, reiterate, repeat, write
- **Identify**—The individual selects a named, described, or pictured object by pointing to it, touching it, picking it up, or selecting it.

Behavioral synonyms: Select, mark, match, choose, judge

- **State a rule** – The individual communicates a relationship or principle that could be used to solve problems or perform a task.
- **Apply a rule** – The individual supplies an answer to a problem by using a stated relationship or principle.

Behavioral synonyms: Solve, calculate

- **Describe** – The individual relates sufficient characteristics or properties of an object or event so that a second individual will be able to state what is being discussed.

Behavioral synonyms: Define, discuss, interpret, recite, tell how, tell what happens when

- **Distinguish** – The individual selects an object or event from two or more that are easily confused.

Behavioral synonyms: Discriminate, differentiate

- **Order** – The individual arranges three or more objects or events in a sequence based on a stated property.

Behavioral synonyms: Arrange, sequence, list in order, classify, divide, isolate, sort

- **Construct** – The individual makes a physical object, a verbal statement, or a drawing.

NOTE: Construct is used when the finished product or result is important.

Behavioral synonyms: Draw, make, build, design, formulate, reproduce, transcribe, convert, put together, compile

- **Demonstrate** – The individual performs several operations necessary to carry out a specified process.

NOTE: Demonstrate is used when it is desirable to watch the student perform a task, one of the highest levels of student performance.

Behavioral synonyms: Show your work, show procedure, perform an experiment, perform the steps, operate, remove, replace, turn off/on, (dis)assemble, (dis)connect

The objectives should be provided for students and stressed throughout the teaching/learning process. This will help answer any questions concerning performance requirements for each instructional unit. The objectives can also help determine teaching strategies and instructional methods. Prepare for each unit by deciding how each objective can best be taught.

The objective sheet may also be used as a quick pretest to determine prior knowledge of class members and to determine whether further study or activities are necessary. Instructors should feel free to modify, delete, or add objectives in order to meet the needs of the class members and community. When changes in objectives are made, the instructor should remember to supply the needed information, assignment and/or job sheets, and criterion test items.

Suggested Activities (pink pages)

This component is included only in instructor material. The suggested activities pages assist the instructor during the preparation stage of the teaching/learning process by providing suggestions for delivery and/or presentation during the instructional process. Read the suggested activities before teaching the units to allow time to obtain supplemental materials, prepare audio-visual materials, and contact outside resources. Duties of the instructor will vary according to the particular unit.

The references that are listed are ones used in the development of each unit. They should be used by the instructor to supplement his or her knowledge of the subject area or to help class members with particular interests or occupational objectives in the area covered.

Information Sheet (green pages)

The information sheet provides "must know" content essential for meeting the cognitive (knowledge level) objectives of the unit. The information is written in a modified outline form and is keyed to the specific objectives.

Instructors will find that the information sheet serves as an excellent guide for presenting background knowledge necessary to develop the skills specified in the unit objective. The information sheet may also be used for coordinating activities and advisory committees.

Class members should read the information sheet before the information is discussed in class. Space is provided in margins for class members and instructors to add notes that supplement, localize, personalize, or provide motivation for each unit.

Handouts (white pages)

Handouts are additional material that support and go beyond portions of the Information Sheet. Handouts include such activities as games, puzzles, and additional information that may be used to broaden the students understanding of the information.

Transparency Masters (white pages)

Transparency masters provide information in a special way. Transparencies direct the class's attention to the topic of discussion. Transparencies may present new information, or they may reinforce information presented in the information sheet. They are particularly effective when identification is necessary. Make transparencies, and place them in the notebook where they will be immediately available for use.

Assignment Sheets (tan pages)

Assignment sheets give class members a chance at problem solving, self-assessment, and/or practical experience with the information. They assist students in the application of knowledge that is a necessary prerequisite to skill development. These may be given to the student for completion in class or used for homework assignments. Answer sheets are provided when appropriate and can be used by the student and/or instructor for checking student progress.

Tests (yellow pages)

This component provides criterion-referenced evaluation of every objective listed in the unit of instruction. It is crucial to note that both paper/pencil and performance objectives must be evaluated.

The tests may be written or oral. It is recommended that the tests be divided into shorter tests covering three or four objectives at a time and given soon after those objectives have been covered. A selection of questions from the units covered may be used for final tests at the end of each term if desired. If objectives have been added, deleted, or modified, be sure to make the changes on the test.

The acceptable response on a unit test, 85 percent in most units, may be raised or lowered to fit the topic or class members' ability levels. The percentage applies to the overall score, not to each individual question. The final unit grade should be obtained by using the paper/pencil score along with evaluations of class members' demonstrations of the desired skills.

Answers to Test and Assignment Sheets (pink pages)

These components are designed to assist the instructor in evaluation of student performances.

TEACHING METHODS

It is a challenge to keep class members motivated. Supplement the objectives by providing the "why," personal experiences, and current information. Prepare for each unit by deciding how each objective can best be taught. Allow class members to become involved in preparing and planning.

CORRECTIONS AND SUGGESTIONS

The Curriculum and Instructional Materials Center wants to provide vocational instructors and students with materials that are accurate and effective. Although the Center strives to maintain the highest standards of development and production, oversights occasionally do occur. If you find any errors in this or other CIMC publications, or have suggestions for improving their usefulness in vocational programs, please notify the CIMC staff. One easy way of pointing out errors is to make a photocopy of the affected pages and to indicate the correction on the copy. You can then mail the information to the CIMC, where it will be used to correct the publication before the materials are reprinted.

To ensure that the material is updated on a timely basis, it is important that you notify the Center of necessary corrections as soon as possible after discovering the error. Do not assume that someone else will notice the error and inform the CIMC; other users may be making the same assumption. Please send corrections and recommendations for improving this publication to the following address:

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OBJECTIVE SHEET

INCOME TAX MANAGEMENT

I

INTRODUCTION

Income tax management is an important part of managing the farm business. A good working knowledge of methods used for tax management can help the farmer control erratic differences in the amount of income tax owed from one year to another. By understanding income tax management procedures, the operator is in a better position to make wise decisions concerning capital investments needed for the farm business.

UNIT OBJECTIVE

After completing this unit, the class member should be able to identify and use methods of tax management. The class member will demonstrate these competencies by completing the assignment sheet and written test with a minimum score of 85 percent.

SPECIFIC OBJECTIVES

After completing this unit, the class member should be able to :

1. Match terms associated with income tax management to their correct definitions.
2. List advantages and disadvantages of income tax accounting methods.
3. State guidelines for determining when to use income tax management strategies.
4. State important filing dates for federal income tax returns and factors in a declaration of estimated tax.
5. List special tax situations that can affect an individual's tax bracket.
6. Distinguish between income tax management strategies used to increase taxable income and those used to decrease taxable income.
7. State characteristics of the alternative minimum tax (AMT).
8. State requirements for employers of agricultural labor.
9. State methods for payment of Social Security Taxes.
10. Distinguish between partnership and corporation tax considerations.
11. Complete a tax management checklist. (Assignment Sheet 1)

PREPARATION

- Supply class members with current editions of *Farmer's Tax Guide*, Publication 225 and *Your Federal Income Tax*, Publication 17 from the Internal Revenue Service (IRS). Use publication 1045.
- Obtain copies of current federal and state tax tables and schedules.
- Attend session of Oklahoma State University Cooperative Extension's Income Tax Institute for current tax update.
- Obtain copies of Oklahoma State University Extension reports on current tax implications and changes.
- Obtain copies of *Master Tax Guide* from Commerce Clearing House, Inc., Chicago, Illinois.
- Secure names and addresses of various people to contact to acquire farm management advice or income tax information.
- Invite a competent income tax practitioner familiar with farm and ranch income tax returns to speak to the class.

DELIVERY

NOTE: This unit is not intended to be all-inclusive. For maximum effectiveness, instructors should personalize this unit for their own area and for their class member's income tax situations.

Objective 1

- Point out the importance of defining terms for common understanding.

Objective 2

- Point out that the cash and accrual income tax accounting methods are the only methods accepted by the Internal Revenue Service. Explain that most farmers and ranchers use the cash method for income tax reporting, but that they also use inventories to determine net worth and income statements to complete whole farm and detailed enterprise analysis.

Objective 3

- Emphasize the importance of completing each step before determining income tax management strategies.

Objective 4

- Consult the *Farmer's Tax Guide* for additional dates that may affect individual class members.

Objective 5

- Emphasize the many special situations that can affect an individuals's tax bracket. One situation not listed is the effect on an individual's tax bracket of non-farm income such as spouse's wages, royalty income, or mineral lease bonuses.

Objective 6

- Encourage class members to discuss strategies they have used. Have class members discuss the pros and cons of using each strategy.

Objective 7

- Point out that, currently, very few farmers fall under it's provisions, but if capital gains preferential tax treatment is reinstated, many could possibly be affected by this provision.

Objective 8

- Emphasize the importance of keeping accurate, up-to-date records.

Objective 9

- Point out that as an employer of agricultural labor, the class member may have to deposit withheld funds periodically during the year.

Objective 10

- Point out that Subchapter S corporations are taxed like a partnership, but that forms to be filed and the filing dates are entirely different.
- During scheduled on-farm instruction, have the class members complete the income tax estimate worksheet and a ten-month tax estimate. Reemphasize the importance of income tax management and planning throughout the year.

APPLICATION

Objective 11

- Have students complete Assignment Sheet 1.
- Fill in blanks in checklist with any changes.

EVALUATION

Written Test

- Explain to class members that they will be asked to demonstrate on the written test actions listed in the specific objectives.
- Give written test.

  NOTE: The written test may be given in sections if desired.
- Evaluate class members on assignment sheet activities if not previously done.
- Reteach and retest if necessary.
- Complete appropriate section of competency profiles.
- Review individual and group performance in order to evaluate teaching methods. Adjust scope, sequence, or instructional approaches for additional lessons as required.

SUGGESTED RESOURCES

- *Farmers Tax Guide: 1988 Edition, Publication 225.* rev. 1990, Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.
- *U.S. Master Tax Guide*, 73rd edition, Commerce Clearing House, Inc., Chicago, Illinois, 1989.
- *Your Federal Income Tax for Individuals: 1990 Edition*, Publication 17, rev., Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.

UNIT REFERENCES

- *Federal Tax Guide*, Commerce Clearing House, Inc., Chicago, Illinois, 1988.
- *Farmer's Tax Guide: 1988 Edition, Publication 225.* rev. 1990, Internal Revenue Service, Department of the Treasury, Washington; D.C., 1990.

  NOTE: Internal Revenue Service regulations and publications change frequently. Always use the most current information available. Caution should be used when using materials more than one year old.

- Wheeler, Jon D., *Tax Desk Book for Farming and Ranching,* Institute for Business Planning, Inc., Englewood Cliffs, New Jersey, 1978.
- *Revenue Act of 1978*, Report of the Committee On Finance, United States Senate, U.S. Government Printing Office, Washington, D.C., 1978.
- *1981 Tax Angles in Special Areas*, Commerce Clearing House Inc., Chicago, Illinois; 1980.
- *How Capital Gains are Taxed Under the Revenue Act of 1978,* Commerce Clearing House, Inc., Chicago, Illinois, 1979.
- *Tax Planning 1989*, Commerce Clearing House, Inc., Chicago, Illinois, 1988.
- Osburn, Donald. and Kenneth C. Schneeberger, *Modern Agriculture Management*, Reston Publishing, Inc., Reston, Virginia, 1978.
- James, Sydney C., and Everrett Stoneberg, *Farm Accounting and Business Analysis*, Iowa State University Press, Ames, Iowa, 1978.
- *Your Federal Income Tax for Individuals: 1990 Edition, Publication 17,* rev., Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.
- *Tax Guide for Small Business: 1988 Edition, Publication 334,* rev. Internal Revenue Service, Department of the Treasury, Washington, D. C., 1990.

INCOME TAX MANAGEMENT

OBJECTIVE 1

Match terms associated with income tax management to their correct definitions.

- **Adjusted gross income** – Individual's total income minus any adjustments

  NOTE: Adjustments may include reimbursed employee business expenses, payments to a tax-sheltered retirement plan, penalty on early withdrawal of savings, alimony paid, and the self-employed health insurance deduction.

- **Amortization** – Repayment of a loan with a regular series of payments over a specified period of time

- **Capital asset** – Everything owned and used for personal purposes, pleasure, or investment

  EXAMPLES: Stocks or bonds held in a personal account, a dwelling owned and occupied by you and your family, household furnishings, farm equipment, stamp collections, commodity futures contracts, family car, etc.

- **Capital expenditure** – Amount paid, or debt incurred, for the acquisition, improvement, or restoration of an asset having a useful life of more than one year

  NOTE: Capital expenditures are generally not deductible, except for section 179 expense elections, but they may be depreciable (cost recovery).

- **Estimated tax** – Sum of the individual's estimated income and self-employment tax minus credits against the tax

- **Farmer** – Individual, partnership, or corporation that cultivates, operates, or manages a farm for gain or profit either as an owner or tenant

  NOTE: You may qualify as a farmer under IRS guidelines if at least two-thirds of your total gross income, which includes non-farm income, is from farming.

- **Income tax** – Tax on the taxable income of an individual or business

- **Itemized deduction** – Deduction from adjusted gross income

  EXAMPLES: Medical and dental expenses, certain taxes and interest (consumer interest is severely restricted), contributions to charity, personal casualty and theft losses, moving expenses, job expenses, and other miscellaneous deductions

  NOTE: Many of these deductions are only deductible to the extent that they exceed a certain percentage of your adjusted gross income. Check current regulations.

- **Net operating loss (NOL)** – Excess of allowable business deductions over the sum of business gross income and nonbusiness net income

  NOTE: There are special rules that limit what you can deduct when figuring an NOL.

- **Self-employed** – Pertaining to a person who operates his or her own business

- **Self-employment tax** – Tax on self-employment income (not the same as taxable income) to provide Social Security and Medicare coverage

- **Tax basis** – Relating to taxable gains; that part of the sale price that represents the owner's investment in the property

  NOTE: Included is the original cost of the property plus the cost of capital improvements added during the period of ownership, adjusted by any amount of depreciation claimed.

EXAMPLE:	Original price (2-ton truck)	$ 10,000
	Cost of improvements (bed & winch)	+ 8,000
		$ 18,000
	Depreciation	-$ 10,000
	Tax basis	$ 8,000
	Selling price	$ 20,000
	Tax basis	- $ 8,000
	Taxable gain	$12,000

In this example, $10,000 would be ordinary income (depreciation recapture) and $2,000 would be capital gain.

- **Tax management** – Year-round process in which the class member is constantly making decisions which can make a large impact on the amount of taxes that have to be paid at year's end
- **Tax-option corporation** – Corporation which has elected to avoid paying any corporate tax on its income; instead, the shareholders pay taxes on income proportionate to shareholding

  NOTE: Subchapter S corporations are specifically included.
- **Tax planning** – Summary of primary tax considerations in determining when, how, and whether to conduct various business and personal transactions
- **Tax shelter** – Tax-favored investment usually engaged in by a limited partnership, joint venture, or syndicate

  NOTE: Such investments frequently are concerned with a large amount of capital, high degree of risk, or involve sheltering ordinary income and funding retirement needs. Losses from such activities were restricted by the Tax Reform Act of 1986.
- **Taxable income** – Adjusted gross income less itemized deductions or the standard deduction, and exemptions

OBJECTIVE 2

List advantages and disadvantages of income tax accounting methods.

Cash method

Advantages

- Inventory records are not necessary
- Class member can control when to incur income and deduct expenses
- Calculations are based on cash flow rather than projected inventory values

Disadvantages

- Income may be erratic

  NOTE: A good year can balloon income into a higher tax bracket.

- Expenses are not deductible until paid
- Inventory adjustments must be made to determine net farm income

Accrual methods

Advantages

- Farm income levels out without year-end manipulations
- Cost of farm production can be deferred until the product's sale income is received
- More accurate recordkeeping is required

Disadvantages

- Recordkeeping may be complex and time consuming
- Calculations are more difficult to understand than those for cash method

  NOTE: Calculations are based on projected inventory values rather than actual cash flow dollars.

- Actual cash position is difficult to determine

OBJECTIVE 3

State guidelines for determining when to use income tax management strategies.

- Determine your normal income tax pattern for the past five years.

  NOTE: A class member who has a steady increase in income may be gradually moving into higher tax brackets. On the other hand, the trend could be downward or the income level may change little.

- Select income tax management methods that will help you come as close as possible to a normal tax pattern.

  NOTE: It is costly in terms of after-tax dollars to fluctuate among different income tax brackets.

- Think "taxes" throughout the year.

  NOTE: A good class member will be aware of tax consequences during all twelve months so that day-to-day decisions result in the greatest tax advantage consistent with maximum after-tax income.

- Use an income tax estimate worksheet.

OBJECTIVE 4

State important filing dates for federal income tax returns and factors in a declaration of estimated tax.

NOTE: Assume that the tax year starts January 1 and that at least two-thirds of your total estimated gross income, which includes non-farm income, for this year is from farming; or at least two-thirds of the total gross income, which includes non-farm income, shown on your return last year was from farming.

- On or before January 31–file employer reports and information returns.

- If you do not file a declaration of estimated tax, you must file your current tax return and pay the full amount of the tax on or before March 1.

- Farmers may file form 1040 ES (estimated tax declaration) and pay estimated taxes on or before January 15; then by April 15 file your current return and pay the balance.

  NOTE: If after filing the declaration you find that income has substantially increased or decreased, an Amended Computation Schedule should be filed. Tax indicated on the individual's declaration for the coming year may be paid in full with the first declaration's voucher or paid in installments.

OBJECTIVE 5 **List special tax situations that can affect an individual's tax bracket.**

NOTE: These special situations may have significant tax implications.

- Change in type of business

  EXAMPLE: If a son or daughter is entering the business, a sole proprietorship may be changed to a partnership or a corporation.

- Major business expansion

  NOTE: Enlarging the business usually means a large capital investment in both depreciable and nondepreciable property. It is important to know how fast these investments can be recovered, what the effect will be on cash flow, and whether capital gain can be created from future sales of the acquired property. There also may be investment credit and depreciation implications.

- Estate planning

  EXAMPLES: Transfer of ownership from one generation to the next: implications of gift, estate, and income taxes, etc.

- Improvement in labor-management practices

  EXAMPLE: Improved fringe benefits and bonus plans for key employees

  NOTE: Increased efficiency in farm labor use can often be attained with better labor-management practices.

- Leasing or renting major equipment as an alternative to outright purchase

- Sale of capital items

  EXAMPLES: Farm land, herd of dairy or breeding livestock, mineral rights or deposits, etc.

- Non-farm investments

  NOTE: Evaluate advantages and disadvantages of farm investments rather than in non-farm investments.

OBJECTIVE 6

Distinguish between income tax management strategies used to increase taxable income and those used to decrease taxable income.

NOTE: Income tax management strategies should only be used if consistent with other good farm-management decisions. Strategies assume that the class member is a cash-method taxpayer. The class-member should consider strategies as a method of leveling income from year to year.

- To increase taxable income
  - Postpone expenditures and investments until after beginning of next fiscal year.
  - Sell marketable grain and livestock before end of fiscal or calendar year.
  - Work with suppliers to pay bills after beginning of next fiscal year.
  - Use alternative MACRS depreciation.
  - Forego expense election for depreciable property.
  - Do some off-farm or custom work.
- To decrease taxable income
  - Postpone some sales to next year.
  - Use regular MACRS depreciation.
  - Use expense election for depreciable property.
  - Use deferred sales contracts.
  - Make advanced purchases of deductible items such as feed, fuel, chemicals and fertilizer.

OBJECTIVE 7

State characteristics of the alternative minimum tax (AMT).

- Applied to individuals, trusts, and estates
- Figured on benefits received from tax preference items

EXAMPLES: Accelerated depreciation on real property, accelerated depreciation on leased personal property, percentage depletion more than adjusted basis in property, certain excess itemized deductions, amortization of certified pollution-control facilities, intangible drilling and development costs, mining exploration and development costs, circulation costs, research and experimentation costs, and inventive stock options.

NOTE: Without investment credit or preferential tax treatment of capital gains, very few farmers fall under the provisions of the AMT. When either or both of these provisions are reinstated, many farmers will be affected.

OBJECTIVE 8

State requirements for employers of agricultural labor.

- Must have an Employer's Identification Number (EIN)

NOTE: An Employer's Identification Number is used on all forms reporting the employer's Social Security tax payments. EIN is applied for using form SS-4.

- Must keep records

NOTE: Recorded information should include name and social security number, cash wage payments to employee, daily records of time worked and basis of payment, and amount deducted as employee tax.

- Must make reports

NOTE: Every employer who pays taxable wages for agricultural labor must make a return on Form 943–Employer's Tax and Information Return for Agricultural Employees–before January 31, after the wages are paid. A Form W-2 must be provided to each employee by January 31, each year.

- Must pay the tax levied upon employer and employee

  NOTE: The cash amount of taxes–employer and employee share–for agricultural labor must be deposited in a government depositary. The rules, forms, and instructions may be obtained from the District Director of Internal Revenue Service.

- For contract labor (machine hire), the class member must have *the individual's name, address, taxpayer identification* number (social security number) and the total amount of the payment; if this payment is over $600 a Form 1099 misc. must be filed by January 31

OBJECTIVE 9 **State methods for payment of Social Security Taxes.**

- If you are employed, your contribution is deducted from your wages each payday; the employer matches this contribution and makes the appropriate deposit
- If you are self-employed and your net earnings are $400 or more in a year, you must report your earnings and pay your self-employment contribution each year when you file your individual income tax return

  NOTE: Self-employment taxes must be paid even if no income tax was due. Refundable tax credits may be applied against self-employment social security taxes due.

OBJECTIVE 10 **Distinguish between partnership and corporation tax considerations.**

- Partnership tax considerations
  - Taxes are not paid, but taxable income must be computed so the partners may account for income on individual income tax forms.

    NOTE: Partners must include their share of profits and losses on the individual tax returns whether retained or distributed. Salaries paid partners are treated as income.

  - Partners are liable for tax on their share of income even though no income may have been distributed.

- Profits and losses of the organization are transmitted to the individuals involved.

  NOTE: The class member must own capital interest in a partnership in which capital is a material income-producing factor. The capital may or may not be purchased.

- Corporation tax considerations

  NOTE: Corporate income tax is imposed on corporations and certain associations and trusts that have basic characteristics of corporations.

  - A graduated tax rate structure is used.

    EXAMPLE: Under the Tax Reform Act of 1986, tax rates for small corporations will drop for tax years beginning in 1987 as shown in the table.

CORPORATION TAX TABLE

Taxable Income	1990
$ 0– 50,000	15%
$ 50,000–75,000	25%
$ 75,000–and up	34%
$100,000–and up	34%

plus 5% on excess over $100,000 or $11,750 whichever is less

  - Taxable income consists of the excess of corporate gross income less allowable business deductions.

  - Are allowed to initiate qualified pensions or profit-sharing plans.

    NOTE: Larger amounts of tax sheltered income can be entered into the pension or profit sharing plan than can be placed using a self-employed retirement plan. Qualified pension and profit sharing plans allow the class member to deduct a specified amount from taxable income and invest it in tax-sheltered investments until retirement. Taxes are deferred until the funds are received at retirement.

- May pay all of the employees' medical and dental bills.

  NOTE: Premiums on insurance, expenditures for eye glasses, chiropractors and nursing services may be deducted and the class member does not have to include these items under personal income. This must be covered under an approved plan.

- Subchapter S tax-option corporations do not allow individual items of income and deductions to be passed through to shareholders.

  NOTE: Instead, taxable income is computed at the corporate level and shareholders are taxed directly on the income. Certain items are not deductible to the S corporation and must be passed through to the individual share-holders. Among these are: Section 179 expense election, depletion for oil and gas properties, interest for purchase of rental property or for portfolio or investment income, fringe benefits, soil and water conservation expenses, and casualty and theft losses. Others may exist, see current regulations.

- To become a subchapter S tax-option corporation, the IRS must be notified on Form 2553

- Income of a subchapter S tax-option corporation is taxed through its shareholders in proportion to individual shareholdings

  NOTE: Income is taxable whether distributed or not.

OBJECTIVE 11

Complete a tax management checklist.

NAME ______________________________SCORE ____

As is the case in most businesses, farming has certain tax problems peculiar to its annual transactions. The tax problems arise from a variety of nontax business and regulatory considerations; government restrictions and subsidies, the weather, special inventory methods, sharecropping, Commodity Credit Corporation loans, and preparation and development of land before it becomes productive.

The Tax Code provides certain tax alternatives or tax-saving opportunities that remove some of the inequities that would otherwise exist.

The purpose of this assignment sheet is to provide a checklist of potential errors common to farmers and ranchers. Write the appropriate response for your farm situation in the spaces provided.

	YES	NO	N/A	COMMENTS
Are you aware of new income tax changes?				
Have you purchased a farm this tax year? (NOTE: If yes, consider the importance of allocating costs to land, growing crops, dwelling.)				
Have you sold easement or right-of-way this year?				
Have you accounted for all barter income for services rendered?				
Have you included all cash income received for goods and services?				
Have you accounted for all products used in the home?				

	YES	NO	N/A	COMMENTS
Are you sure that CCC loans have not been counted as income twice? (NOTE: Loans may have been counted in one year when borrowed and next year when crop is sold.				
If you used the cash method, did you deduct the cost of purchased livestock that have strayed or died, or purchased livestock that have been lost or stolen this year?				
Did you deduct the farm share of all auto, utility, telephone, and insurance expenses as actually used in farm business?				
Did you itemize on bank deposit slips all gifts and borrowings so that they will not be considered as taxable income?				
Did you keep a record of all medical, dental, and hospital bills, including medical mileage and premiums for accident and health insurance?				
Did you keep an exact record of date of purchase, cost, and date of sale of all items purchased for resale?				
Did you keep an exact record of Social Security tax paid on wages of hired help?				
Will Form 943 and your employees' W-2 forms be filed in a timely manner?				
Do you keep all "paid" receipts, invoices, and cancelled checks for at least five years, including checks for payment of income tax?				
Do you keep for at least five years as evidence of purchase receipts for purchases of items on which investment credit was taken?				
Do you keep vouchers for improvements as long as property is held?				
Are you taking advantage of capital gains?				
Do you have a proper "paper trail" of all money borrowed for use in the business (consumer interest deductions are severely limited).				

	YES	NO	N/A	COMMENTS
Are you making maximum use of investment credit carryover and depreciation?				
Should you consider an IRA or Keogh plan?				
Should you consider the alternative method of paying Social Security tax?				
Do you have the information available to complete the appropriate 1099 forms?				
Do you have a record of rents and royalties received? (NOTE: If yes, obtain Form 6248, Windfall Profits Tax.)				
If you have capital gains, investment credit, or claim accelerated ACRS on leased property, are you aware of the alternative minimum tax?				

ASSIGNMENT SHEET 1

This assignment should be evaluated on completeness and graded as complete or incomplete.

NAME________________________ SCORE ____

OBJECTIVE 1

Match terms associated with income tax management to their correct definitions. Write the correct letters in the blanks.

Part I

____ 1. Year-round process in which a class member constantly makes decisions that can have a large impact on the amount of taxes to be paid at year's end

____ 2. Summary of primary tax considerations in determining when, how to, and whether or not to conduct various business and personal transactions

____ 3. Relating to taxable gains; that part of the sale price that represents the owner's investment in the property

____ 4. Repayment of a loan in a regular series of payments over a specified period of time

____ 5. Individual, partnership, or corporation that cultivates, operates, or manages a farm for gain or profit either as an owner or tenant

____ 6. Pertaining to a person who operates his or her own business

____ 7. Excess of allowable business deductions over the sum of business gross income and non-business net income

____ 8. Tax on the taxable income of an individual or business

a. Farmer
b. Tax basis
c. Tax management
d. Amortization
e. Tax planning
f. Self-employed
g. Net operating loss
h. Income tax

Part II

____ 1. Deduction from adjusted gross income

____ 2. Individual's total income, minus any adjustments

____ 3. Adjusted gross income less itemized deductions or the standard deduction and exemptions

____ 4. Sum of the individual's estimated income and self-employment tax minus credits against the tax

____ 5. Tax on self-employment income to provide Social Security and Medicare coverage

____ 6. Everything owned and used for personal purposes, pleasure, or investment

____ 7. Amount paid, or debt incurred, for the acquisition, improvement, or restoration of an asset having a useful life of more than one year

____ 8. Tax-favored investments usually engaged in by a limited partnership, joint venture, or syndicate

____ 9. Corporation which has elected to avoid paying any corporate tax on its income; instead, the shareholders pay taxes on income proportionate to shareholding

a. Capital asset

b. Tax-option corporation

c. Self-employment tax

d. Taxable income

e. Capital expenditure

f. Adjusted gross income

g. Estimated tax

h. Tax shelter

i. Itemized deduction

OBJECTIVE 2

List advantages and disadvantages of income tax accounting methods. Write three advantages and three disadvantages under each method.

Cash Method

Advantages

____

____

____

Disadvantages

Accrual method

Advantages

Disadvantages

OBJECTIVE 3

State guidelines for determining when to use income tax management strategies. Write three guidelines.

OBJECTIVE 4

State important filing dates for federal income tax returns and factors in a declaration of estimated tax. Write three filing dates in the spaces below.

OBJECTIVE 5

List special tax situations that can affect an individual's tax bracket. Write five situations.

OBJECTIVE 6

Distinguish between income tax management strategies used to increase taxable income and those used to decrease taxable income. Write an "I" in the blanks before increase and a "D" before decrease.

____1. Postpone some sales to next year

____2. Postpone expenditures and investments until after beginning of next fiscal year

____3. Sell marketable grain and livestock before end of fiscal year or calendar year

____4. Work with suppliers to pay bills after beginning of next fiscal year

____5. Use regular MACRS depreciation

____6. Use expense election for depreciable property

____7. Use deferred sales contracts

____8. Use alternative MACRS depreciation

____9. Forego expense election for depreciable property

____10. Make advanced purchases of deductible items such a feed, fuel chemicals and fertilizer

____11. Do some off-farm or custom work

OBJECTIVE 7

State characteristics of the alternative minimum tax (AMT).

____

____

OBJECTIVE 8

State requirements for employers of agricultural labor. Write three requirements.

____

____

____

OBJECTIVE 9 **State methods for payment of Social Security Taxes.**

____

____

____

____

OBJECTIVE 10 **Distinguish between partnership and corporation tax consideration.** Write in the blanks a "P" for partnership considerations and a "C" for corporation considerations.

____1. Income of a subchapter S tax-option corporation is taxed through its shareholders in proportion to individual shareholdings.

____2. Profits and losses of the organization are transmitted to the individuals involved.

____3. To become a subchapter S tax-option corporation, the IRS must be notified on Form 2553.

____4. Subchapter S tax-option corporations do not allow individual items of income and deductions to be passed through to shareholders.

____5. Partners are liable for tax on their share of income even though no income may have been distributed.

____6. May pay all of the employee's medical and dental bills.

____7. A graduated tax rate structure is used.

____8. Taxable income consists of the excess of corporate gross income less allowable business deductions.

____9. Taxes are not paid but taxable income must be computed so the partners may account for income on individual income tax forms.

____10. A family partnership may be used to split income among family members, thus avoiding high tax brackets.

____11. Are allowed to initiate qualified pensions or profit-sharing plans.

NOTICE

The following assignment sheet is not part of the written test. If this activity has not been completed, check with your instructor.

OBJECTIVE 11

Complete a tax management checklist.

SCORE ________

OBJECTIVE 1

Part I	Part II
1. c	1. i
2. e	2. f
3. b	3. d
4. d	4. g
5. a	5. c
6. f	6. a
7. g	7. e
8. h	8. h
	9. b

OBJECTIVE 2

Answers should include the following

Cash method

Advantages

- Inventory records are not necessary
- Operator can control when to incur income and deduct expenses
- Calculations are based on cash flow rather than projected inventory values

Disadvantages

- Income may be erratic
- Expenses are not deductible until paid
- Inventory adjustments must be made to determine net farm income

Accrual method

Advantages

- Farm income levels out without year-end manipulations
- Cost of farm production can be deferred until the product's sale income is received
- More accurate recordkeeping is required

Disadvantages

- Recordkeeping may be complex and time consuming
- Calculations are more difficult to understand than those for the cash method
- Actual cash position is difficult to determine

OBJECTIVE 3

Answer should include any three of the following:

- Determine your normal income tax pattern for the past five years.
- Select income tax management methods that will help you come as close as possible to a normal tax pattern.
- Think "taxes" throughout the entire year.
- Use an income tax estimate worksheet.

OBJECTIVE 4

Answer should include the following:

- On or before January 31 – File employer reports and information returns
- On or before March 1 – File your current return and pay the tax
- By January 15 – File an estimate of your tax and pay this amount; then by April 15, file your current return and pay the balance

OBJECTIVE 5

Answer should include any five of the following:

- Change in type of business
- Major business expansion
- Estate planning
- Improvement in labor-management practices
- Leasing or renting major equipment as an alternative to outright purchase
- Sale of capital assets
- Non-farm investments

OBJECTIVE 6

1. D
2. I
3. I
4. I
5. D
6. D
7. D
8. I
9. I
10. D
11. I

OBJECTIVE 7

- Applied to individuals, trusts, and estates
- Figured on benefits received from tax preference items

OBJECTIVE 8

Answer should include any three of the following:

- Must have an Employer's Identification Number
- Must keep records
- Must withhold tax from employee's wages
- Must make reports
- Must pay the tax levied upon employer and employee
- Must file information returns on certain contract labor

OBJECTIVE 9

- If you are employed, your contribution is deducted from your wages each payday
- If you are self-employed and your net earnings are $400 or more in a year, you must report your earnings and pay your self-employment contribution each year when you file your individual income tax return

OBJECTIVE 10

1. C
2. P
3. C
4. C
5. P
6. C
7. C
8. C
9. P
10. P
11. C

OBJECTIVE 11

Refer to answers to Assignment Sheet 1.

OBJECTIVE SHEET

INCOME TAX ESTIMATES

II

INTRODUCTION

By completing a 10 month tax estimate, a farmer can evaluate his or her tax position and plan income or expenditures that will be the most advantageous.

UNIT OBJECTIVE

After completing this unit, the class member should be able to complete a ten-month income tax estimate worksheet. The class member will demonstrate this competency by completing the assignment sheets and written test with a minimum score of 85 percent.

SPECIFIC OBJECTIVES

After completing this unit, the class member should be able to

1. Match terms associated with income tax estimates to their correct definitions.
2. Select from a list purposes of tax management and tax planning.
3. State reasons for keeping good records in income tax management.
4. List records and information needed to fill out an income tax estimate worksheet.
5. Select from a list facts to remember about depreciation.
6. State facts to remember about capital gains.
7. Distinguish between nonrefundable and refundable tax credits.
8. List situations requiring special consideration.
9. Match types of tax-sheltered retirement plans to their correct descriptions.
10. Complete an income tax estimate checklist. (Assignment Sheet 1)
11. Complete a ten-month tax estimate worksheet. (Assignment Sheet 2)

PREPARATION

- Supply class members with a current edition of *Farmer's Tax Guide,* Publication 225, and *Your Federal Income Tax for Individuals* Publication 17, from the Department of the Treasury, Internal Revenue Service, Washington, D.C., or use Publication 1045, Form 23335 and send to Regional IRS Office, Box 2929, Austin, Texas 78769.
- Obtain copies of current federal and state income tax tables and schedules.
- Attend sessions of Oklahoma State University Cooperative Extension Income Tax Institute for current tax update.
- Obtain copies of Oklahoma State University Cooperative Extension reports on tax implications and changes.
- Obtain copy of *Master Tax Guide* from Commerce Clearing House, Inc., Chicago, Illinois.
- Make transparencies.
- Secure names and addresses of various people to contact to acquire farm management advice or income tax information.

INTRODUCTION

NOTE: This unit is not intended to be all-inclusive. For maximum effectiveness, instructors should personalize this unit for their own area and for their class members' income tax situations.

- Emphasize why the income tax system is important. Point out how we as individuals cannot provide services, but as a group we can. Examples of services include the highway system, public education, human and social services, public safety, national defense, and public health services.
- Use Transparency 1, "Why Me, Uncle Sam," and Transparency 2, "Income Tax Management," to illustrate the federal government's role in collecting and distributing the people's tax dollars.
- Invite a competent income tax practitioner familiar with farm and ranch income tax returns to speak to the class.

DELIVERY

Objective 1

- Point out the importance of defining terms for common understanding. Use Transparency 3, "Think Taxes Throughout the Year," to emphasize that income tax management planning is a year-round process.

Objective 2

- Use Transparency 2, "Income Tax Management," to illustrate the purpose of income tax management and planning.

Objective 3

- Point out that good records are needed for efficient farm management and that such records are useful in preparing credit applications and income tax returns.

Objective 4

- Use the *Farm Business Management Record Book* forms to point out where the different types of tax information may be found.

Objective 5

- Refer class members to unit on depreciation and to most current information in *Farmer's Tax Guide* emphasizing that depreciation is a noncash expense.

- Discuss the effects of the section 179 expense option for depreciation.

Objective 6

- If class members are confused about the capital gains tax election, have them work the sample problem in the current *Farmer's Tax Guide*, using Form 4749 and Schedule E.

Objective 7

- Point out how depreciation and tax credits differ.

Objective 8

- Have class members discuss special tax problems affecting their individual situation.

Objective 9

- Encourage class members to consult a competent tax consultant or bank officer if they are considering a tax-sheltered retirement plan.

- Have class members complete the income tax estimate worksheet and do a ten-month income tax estimate during scheduled on-farm instruction. Reemphasize the importance of income tax management and planning throughout the year.

APPLICATION

Objectives 10 and 11

- Have class members complete Assignment Sheets 1 and 2 using their farm or ranch records. Additional assistance may be required during the on-farm instruction. Use current federal and state income tax schedules.

EVALUATION

Written Test

- Explain to class members that they will be asked to demonstrate on the written test actions listed in the specific objectives.

- Give written test.

  NOTE: The written test may be given in sections if desired.

- Evaluate class members on assignment sheet activities if not previously done.

- Reteach and retest if necessary.

- Complete appropriate section of competency profiles.

- Review individual and group performance in order to evaluate teaching methods. Adjust scope, sequence, or instructional approaches for additional lessons as required.

SUGGESTED RESOURCES

- Farmers Tax Guide: 1988 Edition, Publication 225. rev. 1990, Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.

- U.S. Master Tax Guide, 73rd edition, Commerce Clearing House, Inc., Chicago, Illinois, 1989.

- Your Federal Income Tax for Individuals: 1990 Edition, Publication 17, rev., Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.

UNIT REFERENCES

- Albracht, James, *Kansas Postsecondary Farm and Ranch Management Project—Farm Management Basic Core Curriculum*. Pittsburg State University/ Vocational Curriculum Materials Center, Pittsburg, Kansas, n.d.
- *Farmer's Tax Guide,* Publication 225. Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.
- *Federal Tax Guide,* Commerce Clearing House, Inc., Chicago, Illinois, 1988.
- Hardin, Mike L., "1981 (ERTA) and 1982 (TEFRA) Tax Law Effective in 1983," *Oklahoma State University Extension Current Report 757*, Oklahoma State University Cooperative Extension, Stillwater, Oklahoma, 1983.
- Hardin, Mike L., "1983 Farm Income and Social Security Tax Management." *Oklahoma State University Extension Current Report 758*, Oklahoma State University Cooperative Extension, Stillwater, Oklahoma, 1983.
- Hardin, Mike L., "Estimating 1983 Federal and State Income Taxes." *Oklahoma State University Extension Cooperative Extension*, Oklahoma State University, Stillwater, Oklahoma, 1983.
- Hodgens, Jim and Leland Myers, *Farm Business Management Year I*, Oklahoma Department of Vocational and Technical Education/Curriculum and Instructional Materials Center, Stillwater, Oklahoma, 1979.
- O'Byrne, John C., and Charles Davenport, *Doane's Tax Guide for Farmers,* The Allen Smith Company, Indianapolis, Indiana, 1981.
- Steward, Jim, *Farm Business Management, Volume II,* Oklahoma State Department of Vocational and Technical Education/Curriculum and Instructional Materials Center, Stillwater, Oklahoma, 1983.
- *Social Security for Farmers*, Doane's Agricultural Report #491. Doane's Agricultural Service, Inc., St. Louis, Missouri, 1983.
- *Tax Guide for Small Business,* Publication 334, Internal Revenue Service, Department of Treasury, Washington, D.C., 1990.
- *Your Federal Income Tax for Individuals,* Publication 17, Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.

OBJECTIVE 1

Match terms associated with income tax estimates to their correct definitions.

- **Adjusted gross income** – Individual's total income minus any adjustments

  NOTE: Adjustments may include reimbursed employee business expenses, payments to a tax-sheltered retirement plan, penalty on early withdrawal of savings, alimony paid, or the self-employed health insurance deduction.

- **Capital asset** – Everything owned and used for personal purposes, pleasure, or investment

  EXAMPLES: Stocks or bonds held in a personal account, a dwelling owned and occupied by you and your family, household furnishings, farm equipment, stamp collection, commodity futures contract, family care

- **Capital expenditure** – Amount paid, or debt incurred, for the acquisition, improvement, or restoration of an asset having a useful life of more than one year

  NOTE: Capital expenditures are generally not deductible, except for section 179 expense elections, but they may be depreciable (cost recovery).

- **Estimated tax** – Sum of the individual's estimated income and self-employment tax minus credits against the tax

- **Farmer** – Individual, partnership, or corporation that cultivates, operates, or manages a farm for gain or profit either as an owner or tenant

  NOTE: You may qualify as a farmer under Internal Revenue Service (IRS) guidelines if at least two-thirds of your total gross income, which includes non-farm income, is from farming.

- **Income tax** – Tax on the taxable income of an individual or business

- **Itemized deductions** – Deductions from adjusted gross income

  EXAMPLES: Medical and dental expenses, certain taxes and interest (consumer interest is severely restricted), contributions to charity, personal casualty and theft losses, moving expenses, job expenses or other miscellaneous deductions

  NOTE: Many of these deductions are only deductible to the extent that they exceed a certain percentage of your adjusted gross income. Check current regulations.

- **Net operating loss** (NOL) – Excess of allowable business deductions over the sum of business gross income and nonbusiness net income

  NOTE: There are special rules that limit what you can deduct when figuring an NOL.

- **Self-employed** – Pertaining to a person who operates his or her own business

- **Self-employment tax** – Tax on self-employment income (not the same as taxable income) to provide Social Security and Medicare coverage

- **Tax basis** – Relating to taxable gains, that part of the sale price that represents the owner's investment in the property

  NOTE: This includes the original cost of the property, plus the cost of capital improvements added during the period of ownership, adjusted by any amount of depreciation allowed or allowable.

EXAMPLE:	Original price (2-ton truck)	$10,000
	Cost of improvements (bed and hoist)	$ 8,000
	Total original basis	$18,000
	less depreciation	-$10,000
	Selling price	$20,000
	less tax basis -	$ 8,000
	Taxable gain	$12,000

In this example, $10,000 would be ordinary income (depreciation recapture) and $2,000 would be capital gain.

- **Taxable income**—Adjusted gross income less itemized deductions or the standard deduction and exemptions

- **Tax management**—Year-round process in which the farm operator constantly makes decisions that can have a large impact on the amount of taxes to be paid at year's end

- **Tax planning**—Summary of primary tax considerations in determining when, how to, and whether to conduct various business and personal transactions

  NOTE: In both of the above definitions the term *income* was purposely avoided, as federal income tax is not the only consideration. There are also social security taxes (both on employees and self-employment income), state income taxes, and other state taxes and federal user fees.

OBJECTIVE 2

Select from a list purposes of tax management and tax planning.

- Maximizing after-tax income

  NOTE: This is not the same as minimizing taxes. Taxes will be at a minimum when there is no taxable income; however, this is not satisfactory as there will be no funds available for family living, debt service, etc. All tax planning decisions must be based on sound farm management principles. Farm the land, not the tax code.

- Holding to a minimum tax liabilities resulting from transactions

  NOTE: These transactions should be consistent with sound farm management practices. To do something only because it is "deductible" means that a dollar will be spent in order to save less than a dollar (the tax rates are far less than 100%).

- Controlling tax if time and method of carrying out transactions may be determined by the farm operator

- Establishing proof of proper accounting and bookkeeping procedures in case of an IRS audit

OBJECTIVE 3

State reasons for keeping good records in income tax management. (Transparency Masters 1, 2 and 3)

- To identify sources of receipts

  NOTE: Not all income is treated or taxed the same and it is the individual's responsibility to make these distinctions.

- To keep track of deductible expenses
- To figure depreciation (cost recovery) allowances
- To take advantage of various credits and capital gain and loss laws when they are in effect
- To record credit account balances
- To show Social Security withholdings and payments for hired labor
- To figure earnings for self-employment Social Security tax and income tax
- To support items reported on the individual income tax return

OBJECTIVE 4

List records and information needed to fill out an income tax estimate worksheet.

NOTE: A tax estimate worksheet is a tool to determine expected tax liability. It is based on what has happened to date in an accounting year and on an estimate of what will happen for the remainder of the year. If farm records are complete and up-to-date, it is relatively easy to follow a format for a tax estimate.

- Ordinary farm receipts
- Receipts from the sale of items purchased for resale
- Purchase-cost of resale items sold
- Amount of capital sales
- Remaining tax basis of capital items sold
- Non-farm income
- Farm expenses
- Depreciation records
- Amount and type of capital purchases

- **Personal exemptions, non-farm and itemized deductions, and the amounts of each**
- **Amounts of federal fuel tax and state tax refunds**
- **Tax credit information**
- **Social Security information**
- **Deductions for tax-sheltered retirement programs**
- **Current year's federal and state income tax tables**

NOTE: Obtain the most recent IRS Publication 225, *Farmer's Tax Guide*, and Publication 17, *Your Federal Income Tax*, for the latest information available. Also, obtain the most recent information on state income taxes.

OBJECTIVE 5 **Select from a list facts to remember about depreciation.**

NOTE: Cost of improving a farm is not deductible. These costs are considered capital expenditures. Money spent on keeping the farm in operating condition is considered an ordinary expense and is deductible. Starting in 1986, you could elect to spend a maximum of $10,000 of the cost of property acquired for use in a trade or business. Cost of the asset is deducted over the expected useful life of an asset as an annual allowance for exhaustion, wear, and obsolescence of property. If costs of raising replacement breeding livestock are not capitalized, the alternate (straight line) Modified Accelerated Cost Recovery System (MACRS) must be used on all assets placed in service during that tax year.

- Tax benefits arise because the cost of the asset is recovered over the useful life of the asset.

  NOTE: The shorter the life assigned to the asset, the quicker the tax benefit is received.

- Purchased breeding, draft, or dairy livestock may be depreciated.

- Raised livestock may not be depreciated when cash method is used because all costs were deducted as paid expenses, unless costs were capitalized, in which case the capitalized cost is depreciated when the asset is placed in service.

- Nonbreeding livestock in inventory may not be depreciated.

  NOTE: For accrual method taxpayers, IRS regulations require all depreciable animals be either included or excluded from inventory. The class member may not include some and exclude others.

- Under the Tax Reform Act of 1986, salvage value will be ignored.

  NOTE: Under the new law, depreciation is referred to as Modified Accelerated Cost Recovery System (MACRS). MACRS creates classes of assets. Consult the IRS *Farmer's Tax Guide* for more information.

OBJECTIVE 6

State facts to remember about capital gains.

NOTE: The amount of capital gain or loss from the sale of a capital asset is the difference between the selling price and the adjusted basis. A sale or exchange of a capital asset will usually result in either a short-term or a long-term gain or loss depending on the time the property is held.

- Capital gains and losses are calculated on Form 4797 and Schedule D.

- Currently, capital gains do not receive preferential tax treatment – see current regulations.

- Under the Economic Recovery Tax Act of 1981, a one-time $125,000 exclusion is provided for the sale of a principal residence for people age 55 or over.

- If an individual sells the house he or she is currently living in and buys a new house to live in which is at least equal in cost to the adjusted sale price of the old house and is used as the home in a period of two years prior to or two years after the date of sale of the old home, the gain may be postponed if all requirements are met.

  NOTE: This is known as the *rollover provision*.

- When the price paid for the new home is less than the adjusted sale price of the old home, gain on the sale is recognized only to the extent that the adjusted sales price of the old house exceeds the individual's cost of purchasing the new home.

- To determine gain or loss on the sale or disposition of property, the class member must not only know the original basis but additions or subtractions that must be made for the time the property has been held.

  NOTE: Additions or subtractions are known as adjustments to the original, unadjusted basis. Allowable deductions for depreciation will reduce the basis and the costs associated with casualty, or similar loss, and are likewise deducted from the basis. Excluding property included in inventory, there are four types of original basis: cost, fair market value, transferred, and substituted. Before capital gains tax may be computed, basis on the property in question must be determined.

- To be eligible for capital gains treatment, livestock must be held for a minimum amount of time.

  EXAMPLES: Cattle and horses, regardless of age, held for draft, breeding, dairy or sporting purposes must be held 24 months; other livestock, regardless of age, must be held 12 months

- Other items eligible for capital gains treatment include depreciable property used in the farm business, real estate used in farming, and unharvested crops on land used in farming—if the crop and land are sold, exchanged or involuntarily converted.

OBJECTIVE 7 **Distinguish between nonrefundable and refundable tax credits.**

NOTE: There are two basic types of credits available: nonrefundable and refundable. Basically, if you owe no taxes, the refundable credits can be sent to you as a tax refund or can be applied to the next year's taxes. Nonrefundable credits are generally lost if no taxes are owed, but some types may be carried forward to future tax years or back to past tax years with time limitations. A tax credit is a dollar reduction against taxes owed.

- **Nonrefundable credits**
  - Child and dependent care credit
  - Credit for the elderly or the permanently and totally disabled
  - Credit for interest on certain home mortgages
  - Fuel production from nonconventional source
  - Alcohol fuels credit
  - Low-income housing credit
  - Targeted jobs tax credit
  - Investment tax credit carryover

  NOTE: This list is not all inclusive, but does include those credits that a farmer or rancher could possibly be involved in.

- **Refundable credits**
  - Credit for taxes withheld on wages
  - Earned income credit
  - Gasoline tax credit
  - Windfall profit tax credit

OBJECTIVE 8

List situations requiring special consideration.

NOTE: Internal Revenue Service regulations change frequently. Always use the most current information available. Caution should be used when using materials more than one year old.

- Land clearing costs – These costs are no longer deductible and must be added to the basis of the land.
- Soil and water conservation expenses – These must be part of an approved plan or they are not deductible. Approved expenses are still limited to 25% of the gross income from farming during the year. The remainder must be carried over to future years.
- Net operating losses – These losses are deductible from ordinary income; adjustment must be made to personal and excess itemized deductions – see current regulations.
- Losses from the destruction of a growing or standing crop – No casualty results because current deductions for seed, labor, fertilization and other production costs have already been included and the only loss is one of anticipated profits.
- Damage to land.

  EXAMPLES: Loss of topsoil during a flood and sinking of land as a result of a sudden shifting of layers beneath the surface have been held as deductible losses

  NOTE: Payment for easements or rights-of-way on land you own may be either claimed as income or can reduce the basis of the property involved. Payments which exceed the basis of the land must be counted as income.

- Livestock losses – Livestock accounted for using the accrual basis may not be deducted as a casualty loss because losses are shown as a reduction of the year-end inventory.
- Losses from disaster – Farm operators may deduct a loss from their return for the immediately preceding tax year if they have sustained a loss from a disaster in which the President of the United States has warranted federal disaster assistance.

- **Fire or hail loss** – Monies secured from insurance for hail or fire on growing crops is included in gross income.

  NOTE: If crops are purchased to replace the destroyed crops, the income may be postponed until the replacement crops are sold.

- **Farm commodities pledged as security for loans** – Farm operators pledging farm commodities as security for loans from the Commodity Credit Corporation may not consider the proceeds of the loan as income when received.

  NOTE: Income is not realized until the commodities pledged for the loan are sold. Taxpayers may elect to treat commodity credit loans as income when realized. Once election is taken, all future commodity credit loans will be considered income.

OBJECTIVE 9 **Match types of tax-sheltered retirement plans to their correct descriptions.**

NOTE: The annual contribution to each of these plans is deductible. The earnings of the fund are not currently taxable and no income will be reported until there is a distribution from the plan sometime in the future. There are penalties for early withdrawal.

- **Individual Retirement Account (IRA)** – May be established by an individual even though an additional plan is in effect; an extra contribution may be made for a nonworking spouse

  NOTE: Limitations apply on the deductibility from Adjusted Gross Income. For a married couple filing a joint return, phase-out of the deduction begins when AGI reaches $40,000 and the IRA deduction is eliminated when AGI reaches $50,000. These limits are less if you are single or married filing separate returns. Also, no contributions may be made after you reach the age of 70 1/2 yrs. Any withdrawal from an IRA before age 59 1/2 is subject to a 10% penalty plus tax on the amount withdrawn.

- **Keogh Plan (HR-10)** – May be established by self-employed persons for benefit of themselves and their employees, if any
- **Simplified Employee Pension Plan (SEP)** – May be established by an employer to make annual payments to an employee's or partner's IRA
- **Qualified Retirement Plan** – May be established by a corporation for benefit of employees, including employees who are also shareholders

1990 TAX RATE SCHEDULES

1990 Tax Rate Schedules

Caution: *Use ONLY if your taxable income (Form 1040, line 37) is $50,000 or more. If less, use the Tax Table.* (Even though you cannot use the tax rate schedules below if your taxable income is less than $50,000, we show all levels of taxable income so that taxpayers can see the tax rate that applies to each level.)

Schedule X—Use if your filing status is **Single**

If the amount on Form 1040, line 37, is: *Over—*	*But not over—*	Enter on Form 1040, line 38	*of the amount over—*
$0	$19,450	........15%	$0
19,450	47,050	$2,917.50 + 28%	19,450
47,050	97,620	10,645.50 + 33%	47,050
97,620	....	Use Worksheet below to figure your tax.	

Schedule Z—Use if your filing status is **Head of household**

If the amount on Form 1040, line 37, is: *Over—*	*But not over—*	Enter on Form 1040, line 38	*of the amount over—*
$0	$26,050	........15%	$0
26,050	67,200	$3,907.50 + 28%	26,050
67,200	134,930	15,429.50 + 33%	67,200
134,930	....	Use Worksheet below to figure your tax.	

Schedule Y-1—Use if your filing status is **Married filing jointly or Qualifying widow(er)**

If the amount on Form 1040, line 37, is: *Over—*	*But not over—*	Enter on Form 1040, line 38	*of the amount over—*
$0	$32,450	........15%	$0
32,450	78,400	$4,867.50 + 28%	32,450
78,400	162,770	17,733.50 + 33%	78,400
162,770	....	Use Worksheet below to figure your tax.	

Schedule Y-2—Use if your filing status is **Married filing separately**

If the amount on Form 1040, line 37, is: *Over—*	*But not over—*	Enter on Form 1040, line 38	*of the amount over—*
$0	$16,225	........15%	$0
16,225	39,200	$2,433.75 + 28%	16,225
39,200	123,570	8,866.75 + 33%	39,200
123,570	....	Use Worksheet below to figure your tax.	

Worksheet (Keep for your records)

1. If your filing status is:
   - Single, enter $27,333.60
   - Head of household, enter $37,780.40
   - Married filing jointly or Qualifying widow(er), enter $45,575.60
   - Married filing separately, enter $36,708.85

   . . . . 1. ______
2. Enter your taxable income from Form 1040, line 37 . . . . 2. ______
3. If your filing status is:
   - Single, enter $97,620
   - Head of household, enter $134,930
   - Married filing jointly or Qualifying widow(er), enter $162,770
   - Married filing separately, enter $123,570

   . . . . 3. ______
4. Subtract line 3 from line 2. Enter the result. (If the result is zero or less, use the schedule above for your filing status to figure your tax. DO NOT use this worksheet.) 4. ______
5. Multiply the amount on line 4 by 28% (.28). Enter the result . . . . 5. ______
6. Multiply the amount on line 4 by 5% (.05). Enter the result . . . . 6. ______
7. Multiply $574 by the number of exemptions claimed on Form 1040, line 6e. (If married filing separately, see the **Note** below.) Enter the result . . . . 7. ______
8. Compare the amounts on lines 6 and 7. Enter the **smaller** of the two amounts here . . . . 8. ______
9. **Tax.** Add lines 1, 5, and 8. Enter the total here and on Form 1040, line 38 . . . . 9. ______

Note: *If married filing separately and you did not claim an exemption for your spouse, multiply $574 by the number of exemptions claimed on Form 1040, line 6e. Add $574 to the result and enter the total on line 7 above.*

1990 OKLAHOMA TAX RATES

METHOD I
(Line 35)

SCHEDULE M
MARRIED FILING JOINTLY AND HEAD OF HOUSEHOLD

IF TAXABLE INCOME IS:

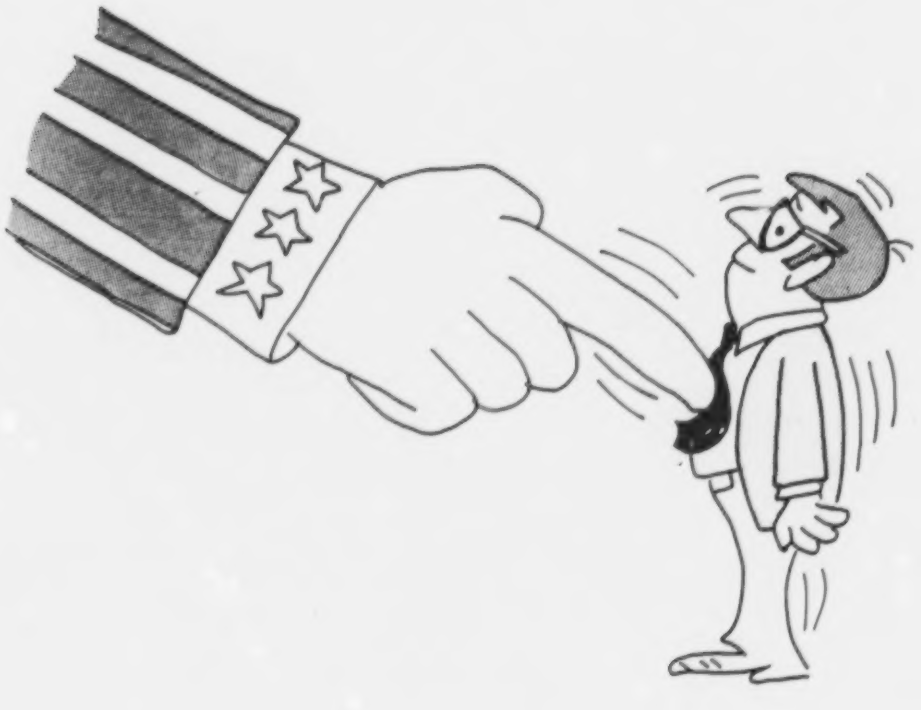
$ -0-	-	$ 2,000	Pay 1/2 of 1% of taxable income.				
2,000	-	5,000	Pay	$ 10.00	+	1%over	$ 2,000
5,000	-	7,500	Pay	40.00	+	2% over	5,000
7,500	-	9,800	Pay	90.00	+	3% over	7,500
9,800	-	12,200	Pay	159.00	+	4% over	9,800
12,200	-	21,000	Pay	255.00	+	5% over	12,200
15,000	-	over	Pay	395.00	+	6% over	15,000
21,000	-	over	PAY	755.00	+	7% over	21,000

SCHEDULE N
SINGLE AND MARRIED FILING SEPARATELY

IF TAXABLE INCOME IS:

$ -0-	-	$ 1,000	Pay 1/2 of 1% of taxable income.				
1,000	-	2,500	Pay	$ 5.00	+	1% over	$ 1,000
2,500	-	3,750	Pay	20.00	+	2% over	2,500
3,750	-	5,000	Pay	45.00	+	3% over	3,750
4,900	-	6,250	Pay	79.50	+	4% over	5,000
6,200	-	7,500	Pay	131.50	+	5% over	6,250
7,700 and over			Pay	206.50	+	6% over	7,5000
10,000	-	over	PAY	344.50	+	7% over	10,000

Why Me, Uncle Sam?

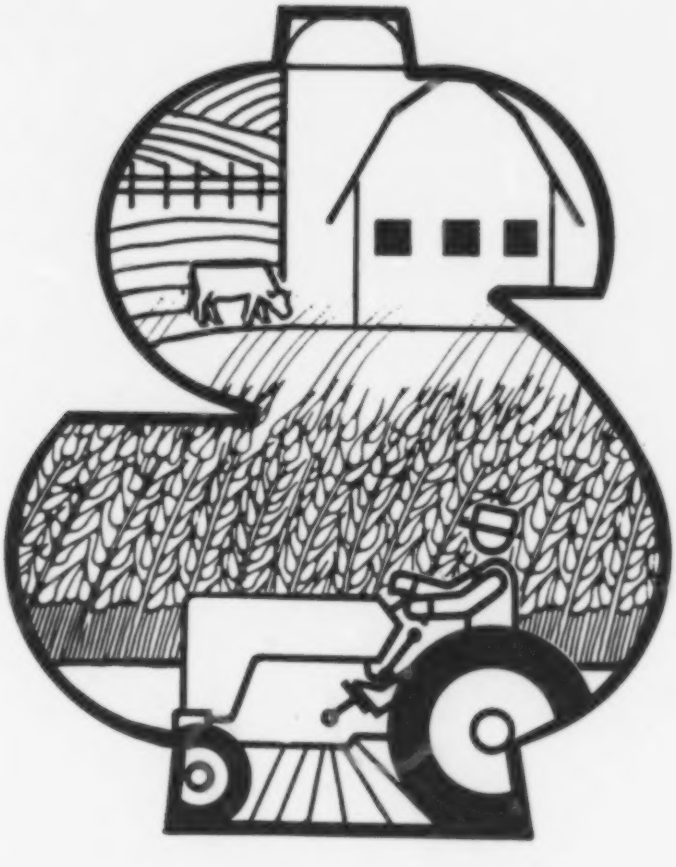


Income Tax Management

Objective: Minimize income taxes while maximizing after-tax income.

TM 3

Think Taxes Throughout the Year



ASSIGNMENT SHEET 1

INCOME TAX ESTIMATES

II

OBJECTIVE 10

Complete an income tax estimate checklist.

NAME______________________________SCORE ____

As in most businesses, farming has certain tax problems peculiar to it. The tax problems arise from a variety of nontax business, regulatory, and climate considerations such as government restrictions and subsidies, special inventory methods, sharecropping, Commodity Credit Corporation loans, and preparation and development of land before it becomes productive.

The Tax Code provides certain tax alternatives or tax-saving opportunities that remove some of the inequities that would otherwise exist. The purpose of this assignment sheet is to provide a checklist of potential errors common to farmers and ranchers. Write the appropriate response for your farm situation in the spaces provided.

INCOME TAX CHECKLIST FOR FARMERS AND RANCHERS

	YES	NO	N/A	COMMENTS
Are you aware of new income tax changes?				
Have you purchased a farm this taxable year? (NOTE: If yes, consider the importance of allocating costs to land, growing crops, dwelling.)				
Have you sold easement or right-of-way this year? Have you accounted for all barter income for services rendered? Have you included all cash income received for goods and services?				
Have you accounted for all products used in the home?				

	YES	NO	N/A	COMMENTS
Are you sure that CCC loans have not been counted as income twice? (**NOTE:** Loans may have been counted in one year when borrowed and next year when crop is sold.)				
If you used the cash method, did you deduct the cost of purchased livestock that have strayed or died, or purchased livestock that have been lost or stolen this year?				
Did you deduct the farm share of all auto, utility, telephone, and insurance expenses as actually used in farm business?				
Did you itemize on bank deposit slips all gifts and borrowings so that they will not be considered as taxable income?				
Did you keep a record of all medical, dental, and hospital bills, including medical mileage and premiums for accident and health insurance?				
Did you keep an exact record of date of purchase, cost and date of sale of all items purchased for resale?				
Did you keep an exact record of Social Security tax paid on wages of hired help?				
Will Form 943 and your employees' W-2 forms be filed in a timely manner?				
Do you keep all "paid" receipts, invoices, and cancelled checks for at least five years, including checks for payment of income tax?				
Do you keep for at least five years, as evidence of purchase, receipts for purchases of items on which investment credit was taken?				
Do you keep vouchers for improvements as long as property is held?				
Are you taking advantage of capital gains?				
Do you have a proper "paper trail" of all money borrowed for use in the business (consumer interest deductions are severely limited).				

	YES	NO	N/A	COMMENTS
Are you making maximum use of investment credit carryover and depreciation?				
Should you consider an IRA or Keogh plan?				
Should you consider the alternative method of paying Social Security tax?				
Do you have the information available to complete the appropriate 1099 forms?				
Do you have a record of rents and royalties received? (NOTE: If yes, obtain Form 6248, Windfall Profits Tax.)				
If you have capital gains, investment credit, or claim accelerated ACRS on leased property, are you aware of the alternative minimum tax?				

OBJECTIVE 11

Complete a ten-month income tax estimate work sheet.

NAME________________________________SCORE ____

The timing of your transactions can play an important part in balancing income between years, thus minimizing fluctuations in income and taxes. Cash-basis operators may make an adjustment in the last few weeks of the year to bring income more in line with past and future expectations.

Use the following work sheets to assist you in determining where you are financially. Compare your findings with tax management objectives, and make adjustments as necessary.

ACCOUNTING PERIOD ______________________ To ____________________

COOPERATOR'S NAME ______________________ SS# ____________________

SPOUSE'S NAME ______________________ SS# ____________________

EXEMPTIONS ____

____

FARM INCOME

Sale of Purchased Items

Description	Amount of Sale	Cost	Profit or Loss
1. Cattle	$________	$________	$________
2. Hogs	________	________	________
3. ________	________	________	________
4. ________	________	________	________

TOTAL PROFIT OR LOSS$ ____________

Sales of Raised Items

Description	Amount	Description	Amount
1. Cattle	$________	6. ________________	$________
2. Calves	________	7. ________________	________
3. Sheep	________	8. ________________	________
4. Swine	________	9. ________________	________
5. ________	________	10. ________________	________

TOTAL RAISED SALES $ ____________

Other Farm Income

Description	Amount	Description	Amount
1. Machine work	$________	6. Fed. gasoline tax refund	$________
2. Patronage divd.	________	7. State gasoline tax refund	________
3. Nonpatronage divd.	________	8. Other	________
4. Ag. program pmts.		9. ________________	________
a. Cash	________	10. ________________	________
b. Materials and services	________		
5. CCC loans under election (or forfeited)	________		

TOTAL OTHER $ ____________________

GROSS FARM PROFITS $ ______________

FARM EXPENSES

Description	Amount	Description	Amount
1. Breeding fees	$________	13. Labor hired	$________
2. Chemicals	________	14. Pension and profit sharing plans	________
3. Conservation expenses	________	15. Rent of farm, pasture	________
4. Custom hire	________	16. Repairs, maintenance	________
5. Depreciation	________	17. Seed, plants purchased	________
6. Employee benefits	________	18. Taxes	________
7. Feed purchased	________	19. Utilities	________
8. Fertilizer and lime	________	20. Veterinary fees, medicine	________
9. Freight, trucking	________	21. Other expenses (specify)	
10. Gasoline, fuel, oil	________	a. ________________	________
11. Insurance	________	b. ________________	________
12. Interest		c. ________________	________
a. Mortgage	________	d. ________________	________
b. Other	________		

TOTAL CASH FARM EXPENSES $________

DEPRECIATION SCHEDULE

Items Purchased

	Date	Description	Total Purchased Price
1.	________	________	$________
2.	________	________	________
3.	________	________	________

Items Traded

	Date	New Item	Old Item	Total Boot Paid
1.	________	________	________	$________
2.	________	________	________	________
3.	________	________	________	________

Items Sold

	Date	Description	Total Purchased Price
1.	________	________	$________
2.	________	________	________
3.	________	________	________

Sale of Capital Items That Qualify for Capital Gain

1. ____
2. ____
3. ____

Sale of Capital Items That Do Not Qualify for Capital Gain

1. ____
2. ____
3. ____

NONFARM INCOME

Wages (W-2 Forms)

1. Gross wages $________
2. Federal W/H $________
3. State W/H $________
4. FICA W/H $________

State and Local Income Tax Refunds $________
Alimony Received $________
Pension and Annuity Income $________

Interest Income

	Source	Amount
1.		$
2.		
3.		

Rent and Royalty Income

	Kind	Total Amt.	Deprec. or Depletion	Other Expenses
1.		$	$	$
2.				
3.				
4.				

Other Income and Expenses

	Description	Income	Expenses
1.		$	$
2.			
3.			
4.			

ADJUSTMENTS TO INCOME

(Employee business expenses, payments to IRA or Keogh, interest penalty, alimony paid and self-employment health insurance deduction.)

1. ______________________ 3. ______________________
2. ______________________ 4. ______________________

ITEMIZED DEDUCTIONS (PERSONAL)

Medical and Dental Expenses

1. Insurance premiums $__________
2. Medicine and drugs __________
3. Doctors, nurses, dentists __________
4. Hospitals __________
5. Other __________
6. ______________ __________

NOTE: Medical and dental expenses are subject to AGI limitations. Currently only that in excess of 7.5% of AGI may be deducted. Consult IRS Publication 17 for more information.

Taxes

1. State and local income $______ 4. Personal property $______
2. Real estate ______ 5. Other ______
3. State and local gasoline ______

Interest

1. Home mortgage $______
2. Credit and charge cards ______
3. Other ______
4. ______________ ______
5. ______________ ______

NOTE: Consumer interest is severely limited — see current regulations.

Contributions

1. Cash w/written evidence $______
2. Other (list) ______
3. ______________ ______
4. ______________ ______
5. ______________ ______

Casulty or Theft Loss (Explanation)

____

____

____

____

NOTE: Personal casulty and theft losses may only be deducted to the extent that they exceed 10% of AGI.

Miscellaneous Deductions

1. Union dues $__________
2. Other __________
3. __________ __________
4. __________ __________

NOTE: May only deduct those expenses in excess of 2% of AGI.

CREDITS (WILL I QUALIFY FOR —)

Description	Yes	No	Amount	Fuel	Gallons
1. Child and dependent care	___	___	$______		
2. Federal fuel tax credit	___	___	______	____	____
3. Other	___	___	______		
4. __________	___	___	______		

OTHER INFORMATION

1. ____
2. ____
3. ____

INCOME TAX ESTIMATE WORK SHEET

		Option 1	Option 2	Option 3
RECEIPTS:				
Sales of products raised* and miscellaneous receipts:				
Cattle, hogs, sheep, and wool, etc.		$		
Poultry, eggs, and dairy products		$		
All crops sales		$		
Custom work, prorations, and refunds agriculture program payments		$		
Total sales and other farm income	(1)	$		
Sales of purchased market livestock†		$		
Purchase cost (subtract)		$		
Gross profits on sales of purchased livestock†	(2)	$		
Gross farm profits (Item 1 + 2)	(3)	$		

FARM EXPENSES:

Breeding fee	$	Labor hired	$
Chemicals	$	Pension/profit sharing	$
Conservation expenses	$	Rent of farm, pastures	$
Custom hire	$	Repairs, maintenance	$
Depreciation	$	Seed, plants purchased	$
Employee benefits	$	Taxes.	$
Feed purchased	$	Utilities	$
Fertilizer/lime	$	Veterinary fees, medicine	$
Freight, trucking	$	Other	$
Gasoline, fuel, oil	$		$
Insurance	$		
Interest			
a. mortgage	$		
b. other	$		

		Option 1	Option 2	Option 3
Total cash farm expenses	(4)	$		
Depreciation on machinery improvements, dairy and breeding stock	(5)	$		
Total deductions (Item 4 + 5)	(6)	$		
Self-employment farm income (Item 3 less Item 6)‡	(7)	$		
Net taxable gain from Schedule D (Sale of dairy and breeding stock, machinery, other capital exchanges)	(8)	$		
Taxable nonfarm income	(9)	$		
Adjusted gross income (Item 7 + 8 + 9)	(10)	$		
Less_______: Excess itemized deductions** ($1,000 x _______ personal exemptions)***				
Total non-business deductions and exemptions	(11)	$		
Taxable income (Item 10 less Item 11)	(12)	$		
Estimated income tax (calculated from applicable tax computation schedule)	(13)	$		
Less credits: allowable investment credit and carryover, gas tax, income tax withheld, and estimated tax paid	(14)	$		
Total Income Tax Due (Item 13 less Item 14)	(15)	$		
Estimated self-employment tax (Item 7 x current rate)	(16)	$		
TOTAL FEDERAL TAX DUE (Item 15 plus Item 16)	(17)	$		
ESTIMATED STATE INCOME TAX DUE	(18)	$		

Date work sheet completed ______________ 19 ___

---

* For accrual method, include sales of all livestock.
** Use itemized deductions if larger than zero bracket amount.
*** Exemptions for 1980, see current tax regulations for subsequent years.
† Omit for accrual method.
‡ For accrual method, adjust for change in inventory and new livestock purchases.

NOTE: For partnerships and subchapter S corporation, stop at line 10. This is the amount to be divided.

NOTE: For most state taxes, apply current rates to line 12.

Adapted from *Income Tax Management for Farmers*, Southern Farm Management Extension Publication No. 17. Cooperative Extension Service, University of Georgia College of Agriculture.

ASSIGNMENT SHEET 1

This assignment should be evaluated based on the completeness and graded as complete or incomplete.

ASSIGNMENT SHEET 2

This assignment should be evaluated based on the completeness and graded as complete or incomplete.

WRITTEN TEST

INCOME TAX ESTIMATES

II

NAME_______________________________SCORE ____

OBJECTIVE 1

Match terms associated with income tax estimates to their correct definitions. Write the correct letters in the blanks.

Part I

____ 1. Year-round process in which the farm operator constantly makes decisions that can have a large impact on the amount of taxes to be paid at year's end

____ 2. Summary of primary tax considerations in determining when, how to, and whether to conduct various business and personal transactions

____ 3. Relating to taxable gains, that part of the sale price that represents the owner's investment in the property

____ 4. Sum of the individual's estimated income and self-employment tax minus credits against the tax

____ 5. Individual, partnership, or corporation that cultivates, operates, or manages a farm for gain or profit either as an owner or tenant

____ 6. Pertaining to a person who operates his or her own business

____ 7. Excess of allowable business deductions over the sum of business gross income and nonbusiness net income

a. Farmer

b. Tax basis

c. Tax management

d. Estimated tax

e. Tax planning

f. Self-employed

g. Capital asset

Part II

____ 1. Tax on the taxable income of an individual or business

____ 2. Deductions from adjusted gross income

____ 3. Individual's total income minus any adjustmentsd.

____ 4. Adjusted gross income, less itemized deductions or the standard deduction and exemptions

____ 5. Tax on self-employment incomeg. to provide Social Security and Medicare coverage

____ 6. Everything owned and used for personal purposes, pleasure, or investment

____ 7. Amount paid, or debt incurred, for the acquisition, improvement, or restoration of an asset having a useful life of more than one year

a. Self-employment tax

b. Capital asset

c. *Income tax capital*

d. Capital Expenditure

e. Taxable income

f. Itemized deductions

g. Adjusted gross income

OBJECTIVE 2

Select from a list purposes of tax management and planning. Write an "X" in the blank before each correct answer.

____1. Increasing demand for farm loan funds

____2. Maximizing after-tax income

____3. Holding to a minimum tax liabilities resulting from transactions

____4. Recognizing profit opportunities in the farm business

____5. Establishing proof of proper accounting and bookkeeping procedures in case of an IRS audit

____6. Controlling tax if the time and method of carrying out transactions are determined by the farm operator

OBJECTIVE 3

State reasons for keeping good records in income tax management. Write eight reasons.

OBJECTIVE 4

List records and information needed to fill out an income tax estimate worksheet. Write eight records and information needed.

OBJECTIVE 5

Select from a list facts to remember about depreciation. Write an "X" in the blank before each correct answer.

____1. Cost of asset is recovered over useful life of asset

____2. Purchased breeding, draft, or dairy livestock may not be depreciated

____3. Direct deduction is allowed from farm operator's income tax liability

____4. Raised livestock may not be depreciated when cash method is used because all costs were deducted as paid expenses

____5. Depreciation is figured on benefits received from tax preference items

____6. Nonbreeding livestock in inventory may not be depreciated

____7. Under the Tax Reform Act of 1986, salvage value will be ignored

____8. Use of expense election will affect cost recovery

OBJECTIVE 6

State facts to remember about capital gains. Write three facts.

____

____

____

____

____

____

OBJECTIVE 7

Distinguish between nonrefundable and refundable tax credits. Write an "N" in the blank before nonrefundable tax credits and an "R" before each refundable tax credit.

____1. Fuel production from nonconventional source

____2. Child and dependent care credit

____3. Credit for taxes withheld on wages

____4. Credit for interest on certain home mortgages

____5. Targeted jobs tax credit

____6. Low-income housing credit

____7. Alcohol fuels credit

____8. Earned income credit

____9. Gasoline tax credit

___10. Credit for the elderly or the permanently and totally disabled

___11. Investment tax credit carryover

___12. Wind fall profit tax credit

OBJECTIVE 8

List situations requiring special considerations. Write five situations in the space below.

____

____

____

____

____

____

____

____

____

OBJECTIVE 9 **Match types of tax-sheltered retirement plans to their correct descriptions. Write the correct letters in the blanks.**

____ 1. May be established by an individual even though an additional plan is in effect; an extra contribution may be made for a nonworking spouse

____ 2. May be established by self-employed persons for benefit of themselves and their employees, if any

____ 3. May be established by an employer to make annual payments to an employee's or partner's IRA

____ 4. May be established by a corporation for benefit of employees, including employees who are also shareholders

a. Individual Retirement Account (IRA)

b. Qualified Retirement Plan

c. Keogh Plan (HR-10)

d. Simplified Employee Pension Plan (SEP)

NOTICE The following assignment sheets are not part of the written test. If these activities have not been completed, check with your instructor.

OBJECTIVE 10 **Complete an income tax estimate checklist.** SCORE ______

OBJECTIVE 11 **Complete a ten-month income tax estimate worksheet.** SCORE ______

OBJECTIVE 1

Part I	Part II
1. c	1. c
2. e	2. f
3. b	3. g
4. d	4. e
5. a	5. a
6. f	6. b
7. g	7. d

OBJECTIVE 2

2, 3, 5, 6

OBJECTIVE 3

- To identify sources of receipts
- To keep track of deductible expenses
- To figure depreciation allowances (cost recovery)
- To take advantage of various credits and capital gain and loss laws when they are in effect
- To record credit account balances
- To show Social Security withholdings and payments for hired labor
- To figure earnings for self-employment Social Security tax and income tax
- To support items reported on individual income tax return

OBJECTIVE 4

Answer should include any eight of the following

- Ordinary farm receipts
- Receipts from sale of items purchased for resale
- Purchase-cost of resale items sold

- Amount of capital sales
- Remaining tax basis of capital items sold
- Non-farm income
- Farm expenses
- Depreciation records
- Amount and type of capital purchases
- Personal exemptions, non-farm and itemized deductions, and amounts of each
- Amount of federal fuel tax and state tax refunds
- Tax credit information
- Social Security information
- Deductions for tax-sheltered retirement programs
- Current year's federal and state income tax tables

OBJECTIVE 5 1, 4, 6, 7, 8

OBJECTIVE 6 Answer should include any three of the following

- Capital gains and losses are calculated on Forms 4797 and Schedule D
- To be eligible for capital gains treatment, livestock must be held for a minimum amount of time
- Other items eligible for capital gains treatment include depreciable property used in the farm business, real estate used in farming, and unharvested crops on land used in farming – if the crop and land are sold, exchanged, or involuntarily converted
- To determine gain or loss on the sale or disposition of property, the class member must not only know original basis but additions or subtractions that must be made for the time the property has been held

OBJECTIVE 7

1. N
2. N
3. R
4. N
5. N
6. N
7. N
8. R
9. R
10. N
11. N
12. R

OBJECTIVE 8

Answer should include any five of the following:

- Land clearing costs
- Soil and water conversation expenses
- Net operating losses
- Losses from the destruction of growing or standing crop
- Damage to land
- Livestock losses
- Losses from disaster
- Fire or hail loss
- Farm commodities pledged as security for loans

OBJECTIVE 9

1. a
2. c
3. d
4. b

OBJECTIVE 10

Refer to answers to Assignment Sheet 1.

OBJECTIVE 11

Refer to answers to Assignment Sheet 2.

OBJECTIVE SHEET

DEPRECIATION

III

INTRODUCTION

Depreciation is the decline in the value of assets over a period of time because of wear, climate, obsolescence or inadequacy. It is used to provide an estimate of the noncash allocation of the cost of an asset to adjust taxable income.

UNIT OBJECTIVE

After completing this unit, the class member should be able to determine depreciation strategies and be able to compute depreciation for income tax and management purposes. The class member will demonstrate these competencies by completing the assignment sheets and written test with a minimum score of 85 percent.

SPECIFIC OBJECTIVES

After completing this unit, the class member should be able to

1. Match terms associated with depreciation to their correct definitions.
2. State the purposes of depreciating an asset.
3. Select from a list major causes of depreciation.
4. State rules for determining farm property subject to depreciation.
5. Select from a list property that qualifies for depreciation.
6. State information to know before figuring depreciation.
7. Name cost recovery methods allowed under ACRS.
8. Select from a list facts about ACRS.
9. Name the classes of recovery property under the ACRS.
10. Distinguish between ACRS for personal property and for real property.
11. State the straight-line ACRS optional recovery periods.
12. Distinguish between straight-line ACRS for personal property and for real property.
13. Name the cost recovery methods allowed under MACRS.
14. Select from a list facts about MACRS.
15. List classes of recovery property for MACRS.

16. Explain briefly the declining balance method of MACRS for personal and real property.

17. Explain how to figure straight-line MACRS for personal and real property.

18. State characteristics of expense option.

19. List characteristics of listed property.

20. Match methods of computing depreciation for management purposes to their correct descriptions.

21. Complete a depreciation schedule for income tax purposes. (Assignment Sheet 1)

22. Complete a depreciation schedule for management purposes. (Assignment Sheet 2)

PREPARATION

- Order *Farmer's Tax Guide, Publication 225*, and *Depreciation, Publication 534* to supplement unit.

  NOTE: Order the current issue from your state's Department of Treasury, Internal Revenue Service, IRS Forms Distributions Center. In Oklahoma, order from P.O. Box 2924, Austin, Texas 78769.

- Make transparencies or copies of supplements as appropriate.
- Review the current edition of the *Farmer's Tax Guide* to update unit on the current law, and review *IRS Publication 534-Depreciation* before teaching this unit.

DELIVERY

- Point out the importance of using depreciation for income tax purposes to recover the cost of a capital asset.
- Point out the importance of keeping good records for property that is depreciated. Records of depreciable property and of depreciation allowed are important to verify the accuracy of information filed on income tax forms.
- Emphasize the use of depreciation for management purposes to spread capital asset costs over the useful life of the asset and to control distortion of expense figures.
- Provide class members with information and assignment sheets.

Objective 1

- Point out the importance of using the proper terminology for a better understanding of depreciation and of the Modified Accelerated Cost Recovery System (MACRS).

Objective 2

- Point out that depreciating an asset estimates annual noncash expense by prorating cost basis over useful life; adjusts taxable income by decreasing taxable income; and estimates current value.
- Explain that if depreciation is overstated, the overstatement implies less capital invested in assets that could be realized if the assets were sold, thus creating a deflated net worth.
- Explain that showing assets at greater market value overstates net worth.

Objective 3

- Explain that useful life is inversely related to use, and that the greater the useful life, the lower the value. Also point out that obsolescence and deterioration will occur even if the asset is not used.

Objectives 4 and 5

- Emphasize that property with a useful life of more than one year should be depreciated to recover the asset's cost.

Objective 6

- Illustrate how to determine the adjusted tax basis and depreciable balance of an asset.

Objective 7

- Use Transparencies 1 and 2 to emphasize that massive changes from the old depreciation rules were made by the Economic Recovery Tax Act of 1981 and subsequent changes. these rules apply to acquisition made in 1981 or later. Also point out that in the new law, the tax jargon has changed from *depreciation* to *cost recovery* if recovery property is involved. if recovery property is not involved, the old rules for depreciation remain applicable.

- Emphasize that the straight-line ACRS method is an optional method.

- Point out that property acquired in certain transactions from persons who used it in 1980 is not recovery property and must be depreciated under the old rules.

EXAMPLE: Conditions under which old rules must be used:

Class member or a party related to class member owned or used the property in 1980.

Class member leased the property to anyone who owned or used the property in 1980;

Class member acquired the property from its 1980 owner, but the person actually using the property does not change; and

Property acquired in a tax-free exchange does not qualify as recovery property to the extent that the property's basis is carried over from property owned before 1981.

Objective 8

- Use Transparencies 1 and 2 to illustrate the differences between rules used prior to 1981 and ACRS rules and rules for MACRS. Emphasize that the same recovery period must be used for all property of a class from which such election is made.

Objective 9

- Point out that classification of property depends on the class life of the property under the old Asset Depreciation Range (ADR) depreciation rules, and on whether it is Section 1245, tangible personal property, or Section 1250, real estate property.

Objectives 10 through 12

- Work examples on the chalkboard so that class members can see the calculation process.
- Point out that the depreciable balance is taken to zero. Have class members complete Assignment Sheet 1.
- Use Supplement 1 to illustrate another type of form used.
- Discuss basis adjustment for investment tax credit.

Objective 13

- Emphasize to class members that they must follow the new rules on property purchased since January 1, 1981, and that these rules changed slightly on January 1, 1983 and again on January 1, 1987.

Objective 14

- Emphasize that the expense option limit is changing, and that no investment credit is allowed on the amount expenses.

Objectives 15 through 20

- Emphasize differences between depreciation for income tax and management purposes.
- Point out that the double-declining balance method is the fastest write-off.
- Work examples on the chalkboard so that class members can see the calculation process.

APPLICATION

Objectives 21 and 22

- Have class members complete Assignment Sheet 2. After class members have completed Assignment Sheet 2, show Transparency 3, comparing the different depreciation methods.
- In concluding remarks, summarize that the new rules apply to recovery property acquired in 1981 and to farm assets that do not qualify as recovery property: primarily assets purchased from related parties. Thus, for the foreseeable future, a farmer will have to be alert to the multiple sets of depreciation rules.
- Have class members obtain current depreciation schedules for individual on-farm instruction.
- Encourage class members to enter the depreciation schedule into their record system.
- Check depreciation schedules for possible discrepancies.
- Compare depreciation schedule with beginning inventory to make sure that nothing has been left off the depreciation schedule or that an asset which has been discarded has been taken off the depreciation schedule.
- Discuss with class members anticipated capital asset purchases or trades and strategies for depreciation.
- Have a competent income tax practitioner speak to class on depreciation strategies.

EVALUATION

Written Test

- Explain to class members that they will be asked to demonstrate on the written test actions listed in the specific objectives.
- Give test.

  NOTE: The written test may be given in sections if desired.

- Evaluate class members on assignment sheet activities if not previously done.
- Reteach and retest if necessary.
- Complete appropriate section of competency profile.
- Review individual and group performance in order to evaluate teaching methods. Adjust scope, sequence, or instructional approaches for additional lessons as required.

SUGGESTED RESOURCES

- *Farmers Tax Guide: 1988 Edition, Publication 225.* rev. 1990, Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.
- *U.S. Master Tax Guide*, 73rd edition, Commerce Clearing House, Inc., Chicago, Illinois, 1989.
- *Your Federal Income Tax for Individuals: 1990 Edition*, Publication 17, rev., Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.

UNIT REFERENCES

- *Cost Recovery: The New Depreciation*, Doane's Reference Volume No. 481, Doane's Agricultural Report, St. Louis Missouri, 1982.
- *Farmer's Tax Guide*, Publication 225 rev., Washington, D.C., Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.
- Hardin, Mike L., and Joseph E. Williams, *Oklahoma Young Farmer Record Book*, Oklahoma Department of Vocational and Technical Education/Curriculum and Instructional Materials Center, Stillwater, Oklahoma, 1981.
- Hodgens, Jim, and Leland Myers, *Farm Business Management Year 1*, Oklahoma Department of Vocational and Technical Education/Curriculum and Instructional Materials Center, Stillwater, Oklahoma, 1979.
- Maynard, Cecil D., and Mike L. Hardin, *Depreciation and Investment Credit*, Oklahoma State University, OSU Extension Facts No. 748, Stillwater, Oklahoma, 1982.
- *National FFA Contest Bulletin No. 4 1982/1983/1984*, National Future Farmers of America Center, Alexandria, Virginia, 1982.
- *Depreciation*, Publication 534 rev., Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.

OBJECTIVE 1

Match terms associated with depreciation to their correct definitions.

- **Accelerated Cost Recovery System (ACRS)** – Depreciation methods that apply to farm properties acquired after 1980 and before 1987 (1/1/81 through 12/31/86)
- **Adjusted tax basis** – Original cost of an asset plus the value of improvements or alterations less the cost of depreciation, losses, or depletion
- **Annual recovery** – Percentage of an assets's cost to be recovered each year
- **Basis** – Measure of owner's investment in owned property

  EXAMPLES: Purchase price of asset purchased new; cash difference paid, plus the undepreciated value of asset traded in

- **Cash difference** – Cash paid in addition to trade-in

  NOTE: Cash difference is sometimes called *boot*.

- **Cost recovery** – Method of prorating the cost of a working asset over its useful life

  NOTE: Depreciation may also be defined as that decrease in value that occurs regardless of repair and maintenance.

- **Depreciable balance** – Value of an asset to be depreciated

  NOTE: When property is depreciated, a certain percentage of the owner's basis in the property is deducted each year, giving a new depreciable balance. Depreciable balance is sometimes referred to as *book value*.

- **Depreciation schedule** – Form summarizing original cost prior depreciation allowances taken, adjustments to basis, current depreciation remaining value for each asset, and method of prorating cost of capital assets over their useful life

- **Half-year convention** – Treatment of each property as placed in service on the first day of the last half of the first year of use, regardless of the month of acquisition

  NOTE: Half-year convention is used under the cost recovery statutes of the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986.

- **Intangible property** – Property that has no material characteristics but is merely the evidence of value

  EXAMPLES: Certificates of stock, bonds, promissory notes, franchises

- **Investment tax credit** – Credit against or reduction in federal income tax

- **Mid-quarter convention** – If more than 40% of all capital asset purchases for a tax year occur in the last three months of the tax year, then a mid-quarter convention must be used instead of the half-year convention; this change was introduced with the Tax Reform Act of 1986

- **Modified Accelerated Cost Recovery System (MACRS)** – Depreciation methods that apply to farm properties acquired during or after 1987.

- **Recovery property** – Most tangible, depreciable property acquired after 1980

  NOTE: There are some exceptions if property was used prior to 1981.

- **Salvage value** – Estimated value of an asset when it is no longer useful in the farm business or in the production of income

- **Tangible property** – Material property that can be felt or touched

- **Useful life** – Period over which the asset is expected to be useful in the farm business or in the production of income

  NOTE: Do not confuse useful life with the physical life of an asset.

- **Working asset** – Asset that gives productive service to the farm business over a period longer than one year

  NOTE: Internal Revenue Service *Farmer's Tax Guide* specifies that the cost of machinery, equipment, farm buildings, and other property with a useful life of one year or more may not be deducted as an expense in the year of purchase.

OBJECTIVE 2

State the purposes of depreciating an asset.

- Estimating annual noncash expense
- Adjusting taxable income
- Determining book value

OBJECTIVE 3

Select from a list major causes of depreciation.

- Wear and tear due to use
- Obsolescence due to new technology
- Deterioration due to elements of nature

OBJECTIVE 4

State rules for determining farm property subject to depreciation.

- Allow reasonable deductions for the exhaustion, wear and tear of property used in a trade or business, or of property held for the production of income

  NOTE: Property used for personal use, such as a personal automobile, is not deductible as a business expense.

- Include all assets that are used in the business of farming and that have a determined useful life of more than one year

  NOTE: Do not depreciate buildings on a farm or ranch if they are not used in the farming business, or if they were not purchased with the intention of using them in the farming business.

OBJECTIVE 5 **Select from a list property that qualifies for depreciation.**

- Farm buildings

  EXAMPLES: Barns, granaries, sheds

  NOTE: The personal dwelling cannot be depreciated.

- Farm machinery and equipment

  EXAMPLES: Tractors, trucks, trailers, drills

  NOTE: Only the farm share of the family automobile may be depreciated.

- Livestock acquired for work, breeding, or dairy purposes

  EXAMPLES: Purchased breeding livestock, draft horses

  NOTE: Livestock purchased for resale, and raised livestock cannot be depreciated.

- Other physical farm property

  EXAMPLES: Fences, water systems

  NOTE: Land cannot be depreciated.

OBJECTIVE 6 **State information to know before figuring depreciation.**

- Your basis in the property

  EXAMPLES: Cash paid cash difference plus depreciable balance of trade-in

- When the property was placed in service
- Which method of depreciation you elect to use

OBJECTIVE 7 **Name cost recovery methods allowed under ACRS.**

- Regular Accelerated Cost Recovery System
- Straight-Line Accelerated Cost Recovery System

  NOTE: The straight-line Accelerated Cost Recovery System is sometimes referred to as the *optional* or *alternate* method.

OBJECTIVE 8 **Select from a list facts about ACRS.**

- Salvage value is disregarded
- Methods and periods are the same for both new and used property
- No depreciation is allowed in the year personal property is disposed of
- Cost is recovered over a three-year, five-year, ten-year, or fifteen-year period
- Part-year depreciation for real property is determined by the number of months item was owned
- In a given year, the same recovery period must be used for all personal property of a class for which such election is made

  EXAMPLE: All five-year property would have to be treated the same in a given year.
- For tax years 1983–1985, basis is reduced by 1/2 of the investment credit taken for each item

OBJECTIVE 9 **Name the classes of recovery property under ACRS.**

- Three-year property

  EXAMPLES: Autos, light trucks (under 13,000 GVW), tools, breeding swine, some race horses
- Five-year property

  EXAMPLES: Most machinery and equipment, breeding livestock, single-purpose agricultural structures, fences, heavy trucks
- Ten-year property

  EXAMPLES: Utility property, mobile homes
- Fifteen-year property

  EXAMPLE: Buildings placed in service 1/1/81 through 3/15/84.
- Eighteen-year property

  EXAMPLE: Buildings placed in service 3/16/84 through 5/8/85
- Nineteen-year property

  EXAMPLE: Buildings placed in service 5/9/85 through 12/31/86

OBJECTIVE 10

Distinguish between ACRS for personal property and for real property. (Assignment Sheet 1)

- **Personal property** – Cost recovery is determined by multiplying the statutory percentage for the respective class of property by the item's cost basis (Table 1).

EXAMPLE:
TABLE 1 Regular ACRS Statutory Percentage for Personal Property

Recovery Life	Depreciation per Year for 1981-1984*						
	1st	2nd	3rd	4th	5th	6th	7th
3	25%	38%	37%	–	–	–	
5	15%	22%	21%	21%	21%	–	
10	8%	14%	12%	10%	10%	10%	9% (through 10th year)
15	5%	10%	9%	8%	7%	7%	6% (through 15th year)

*Consult current tax law for changes.

NOTE: The half-year convention is built into the statutory percentage for easy calculation. No cost recovery is allowed in the year of disposition.

EXAMPLE: **A new tractor is purchased on November 1, 1982, for $35,000. Tractors are classified as five-year recovery property.**

0.15 x $35,000 = $5,250 First year cost recovery

0.22 x $35,000 = $7,700 Second year cost recovery

0.21 x $35,000 = $7,350 Third year cost recovery

0.21 x $35,000 = $7,350 Fourth year cost recovery

0.21 x $35,000 = $7,350 Fifth year cost recovery
$35,000 Total cost recovery taken

- **Real property**–Annual cost recovery is determined by multiplying the statutory percentage for the month purchased by the property's cost basis (Table 2).

EXAMPLE:

TABLE 2

Regular ACRS Statutory Percentage for Real Property

If the recovery year is–	The applicable percentage is –(Use the column for the month in the first year the property is placed in service.)											
	1	2	3	4	5	6	7	8	9	10	11	12
1	12	11	10	9	8	7	6	5	4	3	2	1
2	10	10	11	11	11	11	11	11	11	11	11	12
3	9	9	9	9	10	10	10	10	10	10	10	10
4	8	8	8	8	8	8	9	9	9	9	9	9
5	7	7	7	7	7	7	8	8	8	8	8	8
6	6	6	6	6	7	7	7	7	7	7	7	7
7	6	6	6	6	6	6	6	6	6	6	6	6
8	6	6	6	6	6	6	5	6	6	6	6	6
9	6	6	6	6	5	6	5	5	5	6	6	6
10	5	6	5	6	5	5	5	5	5	5	6	5
11	5	5	5	5	5	5	5	5	5	5	5	5
12	5	5	5	5	5	5	5	5	5	5	5	5
13	5	5	5	5	5	5	5	5	5	5	5	5
14	5	5	5	5	5	5	5	5	5	5	5	5
15	5	5	5	5	5	5	5	5	5	5	5	5
16	-	-	1	1	2	2	3	3	4	4	4	5

NOTE: The proportional first-year convention is built into the statutory percentage for easy calculation. Cost recovery in the year of disposition will be equal to months owned in year of sale, divided by 12, times the annual cost recovery.

EXAMPLE: A new multipurpose farm building was placed in service on March 1, 1982. It is classified as fifteen-year real property and its cost is $22,000.

0.10 x $22,000 = $2,200 First year recovery

0.11 x $22,000 = $2,420 Second year cost recovery

0.09 x $22,000 = $1,980 Third year cost recovery

NOTE: Only the 15 year table is shown. See the IRS publication 225 or 534 for tables for 18 and 19 year property.

OBJECTIVE 11

State the straight-line ACRS optional recovery periods.

• Three-year property	3, 5, or 12 years
• Five-year property	5, 12, or 25 years
• Ten-year property	10, 25, or 35 years
• Fifteen-year property	15, 35, or 45 years
• Eighteen-year property	18, 35, or 45 years
• Nineteen-year property	19, 35, or 45 years

NOTE: The half-year convention must be used in the year purchased, and the last half year must be claimed following the end of the recovery period.

OBJECTIVE 12

Distinguish between straight-line ACRS for personal property and for real property.

- **Personal property**—Annual cost recovery is determined by dividing the original cost basis by the regular or optional longer recovery period; first year's cost recovery is independent of date purchased.

NOTE: Personal property may be three-year or five-year recovery property. First-year depreciation is one-half annual cost recovery. The last half year is claimed in the year following the end of the recovery period. No cost recovery is allowed in the year of disposition.

EXAMPLE: A new tractor is purchased on November 1, 1982, for $35,000. Tractors are classified as five-year recovery property. Assume the optional straight-line recovery period of five years.

$\frac{\$35,000}{5 \text{ years}} = \$7,000$ Annual cost recovery

$\frac{\$7,000}{2 \text{ years}} = \$3,500$ First year cost recovery

$7,000	Second year cost recovery
$7,000	Third year cost recovery
$7,000	Fourth year cost recovery
$3,500	Year following end-of-recovery period
$35,000	Total cost recovery taken

- **Real property**—Annual cost recovery is determined by dividing the original cost basis by the regular or optional longer recovery period; first year's cost recovery is dependent upon month purchased.

NOTE: First-year cost recovery is equal to annual cost recovery multiplied by months owned divided by 12. Cost recovery in the year of disposition is also annual cost recovery multiplied by months owned divided by 12. The months not claimed in the first year are claimed in the year following the end of the recovery period.

EXAMPLE: A new multipurpose farm building was placed in service on March 1, 1982. It is classified as fifteen-year real property and its cost is $22,000. Assume the optional straight-line recovery period of fifteen years.

$\frac{\$22,000}{15 \text{ years}} = \$1,466.66$ annual cost recovery

$\frac{\$1466.66 \times 10 \text{ months}}{12} = \$1,222.22$ first-year cost recovery

$1,466.66 (4 total)	Second through fifteenth year cost recovery
244.54	Year following end of recovery period
$22,000.00	Total cost recovery taken

OBJECTIVE 13

Name the cost recovery methods allowed under MACRS.
(Transparency 1)

- Declining balance method (MACRS)
- Straight-line method (Alternate MACRS or alternative depreciations)

NOTE: The calculations for computing depreciation under these methods are shown under management depreciation covered later. IRS Publication 534 contains tables of applicable percentages for virtually every situation. These tables minimize calculations necessary and therefore chances for error.

OBJECTIVE 14

Select from a list facts about MACRS.
(Transparency Masters 2 and 3)

- Salvage value is disregarded.
- Methods and periods are the same for both new and used property.
- 1/2 year of depreciation is allowed in the year personal property is disposed of.
- Cost is recovered over a three year, five year, seven year, ten year, fifteen year, twenty year, 27.5 years, or 31.5 year period.
- Part year depreciation for real property is determined by the number of months the item was owned.
- In a given year, the same recovery period must be used for all personal property of a class for which such election is made.
- If you elect not to have the uniform capitalization rules (Heifer tax) apply, you must use the alternate MACRS method on all property placed in service in any tax year for which the election is in effect.

OBJECTIVE 15 **List classes of recovery property for MACRS.**

- Three year property

  EXAMPLES: Breeding swine, some race horses, and over-the-road tractor units

- Five year property

  EXAMPLES: Autos, light trucks, heavy general purpose trucks, computers and office machinery, breeding livestock

- Seven year property

  EXAMPLES: Machinery and equipment, fences, single-purpose agricultural or horticultural structures, some breeding horses

- Ten year property

  EXAMPLES: Tug boats and barges

- Fifteen year property

  EXAMPLE: Roads

- Twenty year property

  EXAMPLES: General purpose agricultural buildings

- 27.5 year property

  EXAMPLES: Residential rental property (including mobile homes)

- 31.5 year property

  EXAMPLES: Non residential real property

MACRS PERCENTAGE TABLES

General Depreciation System
Applicable Depreciation Method: 200 or 150 percent Declining Balance Switching to Straight Line
Applicable Recovery Periods: 3, 5, 7, 10, 15, 20 years
Applicable Convention: Half-year

If the Recovery Year is:	and the Recovery Period is:					
	3-year	5-year	7-year	10-year	15-year	20-year
	the Depreciation Rate is:					
1	33.33	20.00	14.29	10.00	5.00	3.750
2	44.45	32.00	24.49	18.00	9.50	7.219
3	14.81	19.20	17.49	14.40	8.55	6.677
4	7.41	11.52	12.49	11.52	7.70	6.177
5		11.52	8.93	9.22	6.93	5.713
6		5.76	8.92	7.37	6.23	5.285
7			8.93	6.55	5.90	4.888
8			4.46	6.55	5.90	4.522
9				6.56	5.91	4.462
10				6.55	5.90	4.461
11				3.28	5.91	4.462
12					5.90	4.461
13					5.91	4.462
14					5.90	4.461
15					5.91	4.462
16					2.95	4.461
17						4.462
18						4.461
19						4.462
20						4.461
21						2.231

SELECTED LIVES
(150% Declining Balance Switching to Straight-Line, Half-Year Convention)

Recovery Yr.	5-Year	6-Year	7-Year	8-Year	9-Year	9.5-Year	10-Year	12-Year
1	15.00	12.50	10.71	9.38	8.33	7.89	7.50	6.25
2	25.50	21.88	19.13	16.99	15.28	14.54	13.88	11.72
3	17.85	16.41	15.03	13.81	12.73	12.25	11.79	10.25
4	16.66	14.06	12.25	11.22	10.61	10.31	10.02	8.97
5	16.66	14.06	12.25	10.80	9.65	9.17	8.74	7.85
6	8.33	14.06	12.25	10.80	9.64	9.17	8.74	7.33
7		7.03	12.25	10.80	9.65	9.17	8.74	7.33
8			6.13	10.80	9.64	9.17	8.74	7.33
9				5.40	9.65	9.17	8.74	7.33
10					4.82	9.16	8.74	7.33
11							4.37	7.32
12								7.33
13								3.66

OBJECTIVE 16

Explain briefly the declining balance method of MACRS for personal and real property. (Assignment Sheet 1)

- Personal property—Cost recovery is determined by multiplying the statutory percentage for the respective class of property by the item's cost basis (See IRS Publication 534)

  NOTE: The half-year convention is built into the percentages in this table, other tables in publication 534 need to be consulted for the mid-quarter convention.

  EXAMPLE A tractor is purchased on May 1, 1988 for $50,000. Tractors are classified as seven-year recovery property

  .1429 x $50,000 = $7,145 First year cost recovery

  .2449 x $50,000 = $12,145 Second year cost recovery

  .1749 x $50,000 = $8,745 Third year cost recovery

  .1249 x $50,000 = $6,245 Fourth year cost recovery

  .0893 x $50,000 = $4,465 Fifth year cost recovery

  .0892 x $50,000 = $4,460 Sixth year cost recovery

  .0893 x $50,000 = $4,465 Seventh year cost recovery

  .0446 x $50,000 = $2,230 Eighth year cost recovery

  $50,000 Total cost recovery

  NOTE: No, that wasn't a mistake, a seven year asset is written off over eight years. This is one of the changes made with the Tax Reform Act of 1986 in the way the half-year convention is figured.

- Real property used in agriculture is twenty-year property so table 2 is also applicable to general farm buildings.

OBJECTIVE 17

Explain how to figure straight-line MACRS for personal and real property.

- Alternate depreciation system (straight line MACRS) for personal property and real property is figured using the straight line method of depreciation with no salvage value. Applicable recovery periods are shown in IRS Publication 534 – Depreciation. The half-year convention applies.

OBJECTIVE 18

State characteristics of expense option.

NOTE: A provision allowing the immediate deduction of the cost of some assets became available in 1982. Internal Revenue Service regulations and publications change frequently. Always use the most current information available.

- Is limited in amount ($10,000 in 1989)
- Applies to purchases of tangible personal property
- Requires recapture of full expense amount in the year of sale or disposal of property

  NOTE: Full amount is recaptured even on an installment sale.

- Stipulates that property must be purchased for use in trade or business

  NOTE: The option does not apply to inherited property or property that has a basis determined by reference to the basis of other property, such as a tax-free exchange. Also, property acquired from related parties does not qualify.

- May not create a tax shelter situation, i.e. cannot be used to reduce farm income to less than zero
- Is phased out when capital asset purchases exceed $200,000
- Deduction for passenger automobiles is severely limited – see current regulations
- GVW limitations on trucks

OBJECTIVE 19

List characteristics of listed property.

- Any passenger automobile or other property used as a means of transportation
- Any computer and related peripheral equipment (with exceptions)
- These types of assets must have their deduction substantiated by adequate records; no records – no deduction (see IRS Publication 534)

OBJECTIVE 20

Match methods of computing depreciation for Management Purposes to their correct description. (Assignment Sheet 2)

- **Straight-line** – Method of calculating depreciation in which total depreciation is spread evenly over life of asset

NOTE: The salvage value is subtracted from the cost or basis, and the difference is divided by the useful life of the asset. The result is annual depreciation for the life of the asset.

EXAMPLE: A tractor purchased on January 1, 1989, for \$35,000 has an estimated useful life of seven years and a salvage value of \$7,000.

$$\text{Annual Depreciation} = \frac{\text{Basis} - \text{Salvage Value}}{\text{Useful Life of Asset}}$$

$$= \frac{\$35{,}000 - \$7{,}000}{7 \text{ years}}$$

$$= \$4{,}000$$

Year	Annual Depreciation	Accumulated Depreciation	Depreciable Balance
1	$ 4,000	$ 4,000	$ 31,000
2	4,000	8,000	27,000
3	4,000	12,000	23,000
4	4,000	16,000	19,000
5	4,000	20,000	15,000
6	4,000	24,000	11,000
7	4,000	28,000	7,000

This procedure is used for the seven years, with the depreciable balance at the end equal to the salvage value. If the tractor had been purchased at midyear, the first year's depreciation would be 6/12 x $4,000, or $2,000. Each year thereafter the depreciation would be $4,000, until the last year when it would be $2,000.

- **Declining balance** – Method of calculating depreciations in which annual depreciation is taken to be a constant proportion of each year's adjusted basis

  NOTE: Annual depreciation is equal to a constant percentage multiplied by the depreciable balance. The constant percentage is determined by dividing the useful life into 100 percent to arrive at a constant percent per year. Double the straight-line rate is called *double declining balance*. Salvage value is not used in the computation of depreciation; however, the asset cannot be depreciated below a reasonable salvage value.

EXAMPLE: A tractor was purchased on January 1, 1989, for $35,000; it has an estimated useful life of seven years and salvage value is $7,000. Double declining balance method is used.

$$\text{Straight-Line Rate} = \frac{100\%}{\text{Useful Life of Asset}}$$

$$= \frac{100\%}{7\ \text{years}}$$

$$= 14.29\%$$

Double Declining Balance Rate = 14.29% x 2 = 28.58%

First Year Depreciation = 28.58% x $35,000 = $10,003

Year	Yearly Depreciation	Accumulated Depreciation	Depreciable Balance
1	$ 10,003	$ 10,003	$ 24,997
2	7,144	17,147	17,853
3	5,102	22,249	12,751
4	3,644	25,893	9,107
5	2,107	28,000	7,000
6	–	28,000	7,000
7	–	28,000	7,000

Salvage value was reached in the fifth year. If the tractor were purchased at midyear instead of the beginning of the year, the computations would be as follows:

28.58% x $35,000 x 6/12 = $5,001.50	First year depreciation
$35,000 - $5,001.50 = $29,998.50	Depreciable balance
28.58% x $29,998.50 = $8,573.57	Second year depreciation
$29,998.50 - $8,573.57 = $21,424.93	Depreciable balance

General Information					MACRS		Alternate MACRS	
Property Description	Code Section	ADR	First Year Recovery*	Recovery in Year of Disposal	Recovery Period or Estimated Life	Depreciation Recapture Ordinary Income	Recovery Period or Estimated Life	Depreciation Recapture Ordinary Income
Automobiles	1245	3	1/2 year	1/2	5	Yes	5	Yes
Pickup & light trucks less than 13,000 #GVW	1245	3	1/2 year	1/2	5	Yes	5	Yes
Trucks greater than 13,000 #GVW	1245	6	1/2 year	1/2	5	Yes	6	Yes
Breeding Swine	1245	3	1/2 year	1/2	3	Yes	3	Yes
Breeding cattle (dairy & beef)	1245	7	1/2 year	1/2	5	Yes	7	Yes
Breeding sheep	1245	5	1/2 year	1/2	5	Yes	5	Yes
Breeding horses		10	1/2 year	1/2	7	Yes	10	Yes
Single purpose ag structures (grain bins, hay storage, silage storage)	1245	10	1/2 year	1/2	10	Yes	15	Yes
Orchard	1245	20	1/2 year	1/2	7	Yes	10	Yes
Ag machinery and equipment	1245	10	1/2 year	1/2	7	Yes	10	Yes
Fences	1245	10	1/2 year	1/2	7	Yes	10	Yes
Water systems	1245		1/2 year	1/2	15	Yes	20	Yes
Mobile homes			1/2 year		27.5	Yes	40	No
Nonresidential farm buildings	1250	25	Prop(B)		20	Yes	25	No
Residential	1250	25	Prop(B)		27.5	(A)	40	No

*Half year convention built into tables for MACRS

(A) = Amount of straight-line is recaptured as ordinary income. (B) = Recovery is equal to the portion of the year (in months) asset is in service.

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- **Sum-of-the-years digits**—Method of calculating depreciation in which the rate of annual depreciation declines as asset becomes older

  NOTE: This method allows greater depreciation charges in earlier years than does the straight-line method, but does not allow as great a depreciation as does the declining balance method.

Oklahoma State University
Agricultural Economics

SIX YEAR
ACRS DEPRECIATION SCHEDULE 3, 5, 10 OR 15 YEAR PROPERTY

Description	Date of Purchase	Cost			ACRS		Expensed Deduction	Unrecovered Cost Col 5-8	Investment Credit				Cost Recovered 19___			Cost Recovered 19___			Cost Recovered 19___			Cost Recovered 19___			Cost Recovered 19___			Cost Recovered 19___		
		Unrecovered Cost of Trade In	Boot Paid	Total Cost	Class¹	Method²			New or Used	Amount	Yr Claimed	Yr Used	% Rate	Cost Recovered This Year	Bal. Deprec	% Rate	Cost Recovered This Year	Bal. Deprec	% Rate	Cost Recovered This Year	Bal. Deprec	% Rate	Cost Recovered This Year	Bal. Deprec	% Rate	Cost Recovered This Year	Bal. Deprec	% Rate	Cost Recovered This Year	Bal. Deprec
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31

[1] Enter 3, 5, 10, or 15

[2] For 3 yr. Class Property enter A (for accelerated) or 3, 5, or 12 for straight line method
For 5 yr. Class Property enter A (for accelerated) or 5, 12, or 25 for straight line method
For 10 yr. Class Property enter A (for accelerated) or 10, 25, or 35 for straight line method. For 15 yr. Class Property enter A (for accelerated) or 15, 35, or 45 for straight line method

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RECAPTURE – REAL PROPERTY

1. Gain as result of regular ACRS recaptured as ordinary income for non-residential property
2. For residential, ordinary income, to extent accelerated exceeded straight line
3. Capital gain if straight line is used

MACRS Depreciation

Methods

1. Regular MACRS
2. Alternative MACRS

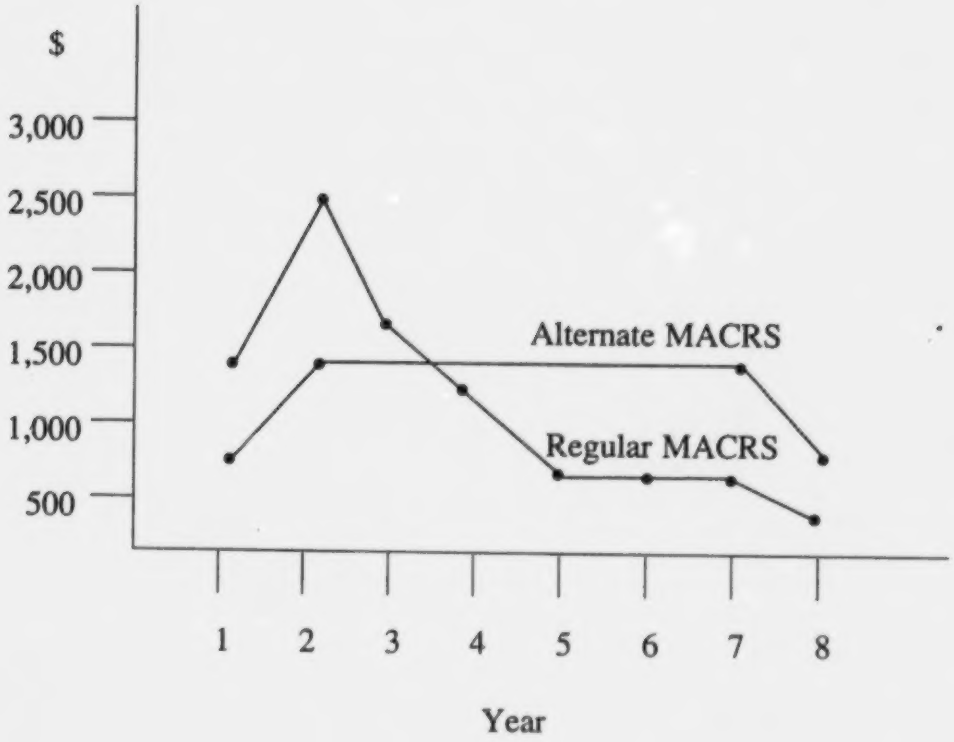
Different Rules

1. Personal property
2. Real property

MACRS Depreciation

1. No longer use salvage value
2. Take 1/2 year depreciation in year of disposition
3. Must use given depreciation for MACRS
4. A. Must use 1/2 year convention for straight line

   B. Take half depreciation during year purchased; take half depreciation during year following recovery period
5. Use same method for used and new



$10,000 machine - 7yr

OBJECTIVE 21

Complete a depreciation schedule for income tax purposes.

NAME______________________________SCORE ____

INTRODUCTION

The purpose of this assignment sheet is to familiarize the class member with cost recovery using the MACRS rules. The rules apply to farm properties acquired in 1987 or after. Internal Revenue Service regulations change frequently. The class member should always use the most current information available.

DIRECTIONS

Use Table 3 in the Information Sheet and IRS Publication 534 in Parts I through III to complete a depreciation schedule for income tax purposes. Assume that the starting year is 1990.

NOTE: The balance for depreciation should include adjustments for cost election or investment tax credit basis adjustment, if taken. Investment tax credit was reduced for 1983 and 1984 purchases. No basis adjustments were made.

TABLE 5

Three-year property...	3, 5, or 12 years
Five-year property...	5, 12, or 25 years
Ten-year property...	10, 25, or 35 years
Fifteen-year property...	15, 35, or 45 years
Eighteen-year property...	18, 35, or 45 years
Nineteen-year property...	19, 35, or 45 years

NOTE: The half-year convention must be used in the year purchased, and the last half year must be claimed following the end of the recovery period.

PART I – MACHINERY AND EQUIPMENT

NOTE: Round dollar figures to nearest two decimals.

1. Purchased new 1/2-ton pickup (GVW less than 13,000 pounds) on September 15, 1988 for $9,200 cash difference plus trade-in of old pickup with depreciable balance of $1,500. Used MACRS method; depreciation taken in prior years totaled $5,564.

2. Purchased new automobile on October 2, 1988. The farm share of the cash paid was $5,100. Sixty percent business use; used regular MACRS method; depreciation taken in prior years totaled $2652.

3. Purchased new tractor on March 31, 1989 for $33,000 cash difference plus trade-in of old tractor with depreciable balance of $[illegible]2,000. Took $10,000 expense election and used straight-line MACRS with seven-year recovery period. Depreciation taken in prior years totaled $2449.

4. Purchased new plow on March 31, 1989 for $5,000 cash difference plus trade-in of old plow with depreciable balance of $500. Used straight-line MACRS with seven-year recovery period; depreciation taken in prior years totaled $393.

5. Purchased used cotton modular builder on December 27, 1990 for $21,000 cash paid. Used straight-line MACRS with seven-year recovery period; depreciation taken in prior years totaled $1499.

6. Purchased new plow on September 3, 1990 for $1,500 cash difference plus trade-in of plow purchased on March 31, 1989; used regular MACRS method.

7. Purchased used chisel on October 15, 1989 for $5,250; paid cash; took expense election of $5250.

FORM 3.1 **PAGE** **DEPRECIATION SCHEDULE: ______________** **MACHINERY AND EQUIPMENT**

LINE	DATE ACQUIRED	ITEM DESCRIPTION KIND OF MACHINE, MAKE, MODEL, SIZE	ESTIMATED CURRENT CASH VALUE				NEW OR USED	COST INFORMATION			INVEST. CREDIT	ADJUSTMENTS	LINE
			START 19__	START 19__	START 19__	START 19__		REM'NG BOOK VALUE OF TRADE-IN	CASH. DIFF. PAID	TOTAL COST BASIS			
1													1
2													2
3													3
4													4
5													5
6													6
7													7
8													8
9													9
10													10
11													11

FORM 3.2 **PAGE** **DEPRECIATION SCHEDULE: ______________** **MACHINERY AND EQUIPMENT (CONT'D)**

LINE	DEPRECIATION INFORMATION					START 19___		START 19___		START 19___		START 19___
	BALANCE FOR REGULAR DEPREC.	LIFE	METHOD	ANNUAL DEPREC. % or $	DEPREC. TAKEN IN PRIOR YEARS	REMAINING BK. VAL. AT START OF YEAR	DEPREC. THIS YEAR	REMAINING BOOK VALUE	DEPREC. THIS YEAR	REMAINING BOOK VALUE	DEPREC. THIS YEAR	REMAINING BOOK VALUE
1												
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PART II—LIVESTOCK FOR BREEDING

NOTE: Only purchased breeding livestock should be entered. Round dollar figures to two decimal places. Complete per head calculations for each period. Complete per lot calculations for start of 1990 and end of 1990 only.

1. **Purchased ten beef cows on January 31, 1988 for $400 each for a total cost of $4,000; used MACRS with five-year recovery period. Depreciation taken in prior years totaled $208 per head. Ten head were on hand at end of 1990.**
2. **Purchased two yearling bulls on March 23, 1989 for $750 each for a total cost of $1,500; used straight-line MACRS with five-year recovery period. Depreciation taken in prior years totaled $112.50 per head. Two bulls were on hand at the end of 1990.**
3. **Purchased ten bred gilts on September 28, 1989 for $500 each for total of $5,000; used regular MACRS. Depreciation taken in prior years totaled $167 per head. Four of the gilts were sold during 1990.**
4. **Purchased a registered boar (first time in service) on October 15, 1989 for $1,000; used regular MACRS. Depreciation taken in prior years was $333. Boar was on hand at end of 1990.**
5. **Purchased four bred gilts on April 15, 1990 for $500 each for a total of $2,000; used straight-line MACRS with a three-year recovery period.**

FORM 3.3 **PAGE** **DEPRECIATION SCHEDULE __________________** **LIVESTOCK FOR BREEDING**

LINE	Date Acquired	Item Description	Head in Lot When Acq	ESTIMATED CURRENT CASH VALUE				Investment Credit	New or Used	PER HEAD DATA						START			LINE
				Per Lot												Per Head		Head	
				Start 19	Start 19	Start 19	Start 19			Cost Basis	Adjustments	Balance for Deprec	Life	Method	Annual Deprec % or $	Deprec in Prior Years	Remaining Book Value	On Hand	
1																			1
2																			2
3																			3
4																			4
5																			5
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7																			7
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10																			10
11																			11

FORM 3.4 **PAGE** **DEPRECIATION SCHEDULE __________________** **LIVESTOCK FOR BREEDING (CONT'D)**

LINE	OF 19___		START OF 19___						START OF 19___						START OF 19___						LINE
	Per Lot		Per Head		Head		Per Lot		Per Head		Head		Per Lot		Per Head		Head		Per Lot		
	Deprec This Year	Remaining Book Value	Deprec This Year	Remaining Book Value	Sold or Died	On Hand	Deprec This Year	Remaining Book Value	Deprec This Year	Remaining Book Value	Sold or Died	On Hand	Deprec This Year	Remaining Book Value	Deprec This Year	Remaining Book Value	Sold or Died	On Hand	Deprec This Year	Remaining Book Value	
1																					1
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11																					11

ASSIGNMENT SHEET 1 - Income Tax

PART III—REAL ESTATE INVESTMENT AND DEPRECIATION RECORD

NOTE: A 160-acre farm was purchased in January, 1976. Purchases and buildings in service prior to 1981 are already entered. Round all dollar figures to the nearest dollar.

1. Built a farrowing house and placed in service August 29, 1987. Total cost was $15,000; used MACRS method with a twenty-year recovery period. Depreciation taken in prior years totaled $.
2. Built a farm shop building and placed in service April 1, 1988. Total cost was $8,500; used MACRS method. Depreciation taken in prior years totaled $_______.
3. Installed grain bin on March 31, 1989, for a cost of $12,000; used alternate MACRS with a fifteen-year recovery period.

FORM 3.5

REAL ESTATE INVESTMENT AND DEPRECIATION RECORD

Tract No. ________ Date Acquired ____________

Legal Description ______________________________

Other Description ______________________________

LINE	DATE ACQUIRED		ESTIMATED CURRENT CASH VALUE				INVESTMENT CREDIT	COST INFORMATION		
			START 19___	START 19___	START 19___	START 19___		TOTAL COST BASIS	ADJUSTMENTS	BALANCE FOR DEPREC.
1										
2										
3										

FORM 3.6

REAL ESTATE INVESTMENT AND DEPRECIATION RECORD (CON'D)

Original Basis Allocated to Land:

Purchase price, carry over basis, other (A) ____________

Settlement fees (B) ____________

Debt assumed (C) ____________

Other (D) ____________

Total Original Basis (Add Lines A thru D) (E) ____________

less portion of basis allocated to buildings and improvements (F) ____________

less reductions in basis (G) ____________

Original Basis Allocated to Land (Line E minus F minus G) (H) ____________

LINE	LIFE	METHOD	ANNUAL DEPREC. % or $	DEPREC. TAKEN IN PRIOR YEARS	START 19___	START 19___		START 19___		START 19___	
					REMAINING BK. VAL. AT START OF YEAR	DEPREC. THIS YEAR	REMAINING BOOK VALUE	DEPREC. THIS YEAR	REMAINING BOOK VALUE	DEPREC. THIS YEAR	REMAINING BOOK VALUE
1											
2											
3											

ASSIGNMENT SHEET 2

DEPRECIATION

OBJECTIVE 22

Complete a depreciation schedule for management purposes.

NAME______________________________SCORE ____

INTRODUCTION

The purpose of this assignment sheet is to familiarize the class member with depreciation for management purposes. Some class members will want to use a depreciation schedule to determine current inventory values.

DIRECTIONS

Use the following information to complete a depreciation schedule for management purposes. Assume that the starting year is 1990.

PART I – MACHINERY AND EQUIPMENT

NOTE: Round all dollar figures to the nearest dollar.

1. Purchased new tractor on January 2, 1985, for $22,000. Assumed a useful life of eight years and used the double declining balance method. Additional first year depreciation was taken. Depreciation taken in prior years was $13,728. Salvage value was estimated at $400.

2. Purchased new 3/4-ton truck on September 1, 1986, for $9,500 boot paid plus trade-in of old pickup with a depreciable balance of $2,500. Assumed useful life of four years and used the double declining balance method. No additional first year depreciation was taken, and salvage value was estimated at $1,500. Depreciation taken in prior years was $10,500.

3. Purchased new offset disk on October 1, 1986, for $5,100. Assumed a useful life of seven years and used the straight-line method. Additional first year depreciation was taken. Salvage value was less than 10 percent of the basis. Depreciation taken in prior years was $1,895.

4. Purchased used springtooth from class member's dad on July 1, 1987 for $1,000. Dad used straight-line method. Useful life is five years. No additional first year depreciation was taken. Salvage was less than 10 percent of the basis. Depreciation taken in prior years was $500.

FORM 3.1 GE **DEPRECIATION SCHEDULE:** ____________ **MACHINERY AND EQUIPMENT**

LINE	DATE ACQUIRED	ITEM DESCRIPTION KIND OF MACHINE, MAKE, MODEL, SIZE	ESTIMATED CURRENT CASH VALUE				NEW OR USED	COST INFORMATION			INVEST CREDIT	ADJUSTMENTS	LINE
			START 19__	START 19__	START 19__	START 19__		REM'NG BOOK VALUE OF TRADE-IN	CASH DIFF. PAID	TOTAL COST BASIS			
1													1
2													2
3													3
4													4
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FORM 3.2 **PAGE** **DEPRECIATION SCHEDULE:** ____________ **MACHINERY AND EQUIPMENT (CONT'D)**

LINE	DEPRECIATION INFORMATION					START 19___		START 19___		START 19___		START 19___
	BALANCE FOR REGULAR DEPREC.	LIFE	METHOD	ANNUAL DEPREC % or $	DEPREC. TAKEN IN PRIOR YEARS	REMAINING BK. VAL. AT START OF YEAR	DEPREC. THIS YEAR	REMAINING BOOK VALUE	DEPREC. THIS YEAR	REMAINING BOOK VALUE	DEPREC. THIS YEAR	REMAINING BOOK VALUE
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PART II—LIVESTOCK FOR BREEDING

NOTE: Purchased breeding livestock should be entered. Round dollar figures to two decimal places. Complete only per head calculations for period after start of 1990.

1. Purchased twenty-five springer heifers on March 1, 1986 for $400 each for a total cost of $10,000. Assumed a useful life of eight years and used the straight-line method. Salvage value of $300 per head was used. Depreciation taken in prior years was $47.92 per head and $1,198 for the lot. Twenty-five head were on hand at the start of 1990.

2. Purchased two bulls on September 1, 1986 for $750 each for total cost of $1,500. Assumed a useful life of five years, and used the straight-line method. Salvage value was estimated to be $350 per head. Depreciation taken in prior years was $266.67 per head for a total of $533.34. Two head were on hand at the start of 1990.

3. Purchased twenty-five four-year-old cows from class member's dad on July 1, 1988 for $500 each for a total cost of $12,500. Assumed a useful life of five years and used the straight-line method. Salvage value was estimated at $300 per head. Depreciation taken in prior years was $60 per head for a total of $1,500. Twenty-five head were on hand at the start of 1990.

ASSIGNMENT SHEET 2 - Income Tax
III - 50

FORM 3.3 **PAGE** **DEPRECIATION SCHEDULE** ____________ **LIVESTOCK FOR BREEDING**

LINE	Date Acquired	Item Description	Head in Lot When Acq	ESTIMATED CURRENT CASH VALUE				Investment Credit	New or Used	PER HEAD DATA						START			LINE
				Per Lot												Per Head		Head	
				Start 19__	Start 19__	Start 19__	Start 19			Cost Basis	Adjust-ments	Balance for Deprec	Life	Method	Annual Deprec % or $	Deprec in Prior Years	Remaining Book Value	On Hand	
1																			1
2																			2
3																			3
4																			4
5																			5
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7																			7
8																			8
9																			9
10																			10
11																			11

FORM 3.4 **PAGE** **DEPRECIATION SCHEDULE** ____________ **LIVESTOCK FOR BREEDING (CONT'D)**

LINE	OF 19__		START OF 19__						START OF 19__						START OF 19__						LINE
	Per Lot		Per Head		Head		Per Lot		Per Head		Head		Per Lot		Per Head		Head		Per Lot		
	Deprec This Year	Remaining Book Value	Deprec This Year	Remaining Book Value	Sold or Died	On Hand	Deprec This Year	Remaining Book Value	Deprec This Year	Remaining Book Value	Sold or Died	On Hand	Deprec This Year	Remaining Book Value	Deprec This Year	Remaining Book Value	Sold or Died	On Hand	Deprec This Year	Remaining Book Value	
1																					1
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PART III – REAL ESTATE INVESTMENT AND DEPRECIATION RECORD

NOTE: A parcel of land was purchased for $100,000 on January 12, 1976. Round all figures to nearest dollar.

1. Appraised machinery shed on land at time of purchase at $12,000. Assumed a fifteen-year useful life and used the straight-line depreciation method. Depreciation taken in prior years totaled $6,400.
2. Placed in service on July 7, 1982, two miles of new fence with a total cost of $7,500. Assumed a fifteen-year useful life and used the straight-line method. Depreciation taken in prior years totaled $3,250.

FORM 3.5

REAL ESTATE INVESTMENT AND DEPRECIATION RECORD

Tract No ______ Date Acquired ______

Legal Description ______

Other Description ______

LINE	DATE ACQUIRED		ESTIMATED CURRENT CASH VALUE				INVEST-MENT CREDIT	COST INFORMATION		
			START 19___	START 19___	START 19___	START 19___		TOTAL COST BASIS	ADJUST-MENTS	BALANCE FOR DEPREC.
1										
2										
3										

FORM 3.6

REAL ESTATE INVESTMENT AND DEPRECIATION RECORD (CON'D)

Original Basis Allocated to Land:

Purchase price, carry over basis, other (A) ______

Settlement fees (B) ______

Debt assumed (C) ______

Other (D) ______

Total Original Basis (Add Lines A thru D) (E) ______

less portion of basis allocated to buildings and improvements (F) ______

less reductions in basis (G) ______

Original Basis Allocated to Land (Line E minus F minus G) (H) ______

LINE	LIFE	METHOD	ANNUAL DEPREC. % or $	DEPREC. TAKEN IN PRIOR YEARS	START 19___	START 19___		START 19___		START 19___	
					REMAINING BK. VAL. AT START OF YEAR	DEPREC. THIS YEAR	REMAINING BOOK VALUE	DEPREC. THIS YEAR	REMAINING BOOK VALUE	DEPREC. THIS YEAR	REMAINING BOOK VALUE
1											
2											
3											

OBJECTIVE 21

Assignment Sheet 1 – See following pages

FORM 3.1 **PAGE** **DEPRECIATION SCHEDULE:** ______ **MACHINERY AND EQUIPMENT**

LINE	DATE ACQUIRED	ITEM DESCRIPTION KIND OF MACHINE, MAKE, MODEL, SIZE	ESTIMATED CURRENT CASH VALUE START 1988	START 1989	START 1990	START 1991	NEW OR USED	COST INFORMATION REM'NG BOOK VALUE OF TRADE-IN	CASH DIFF PAID	TOTAL COST BASIS	INVEST CREDIT	ADJUSTMENTS	LINE
1	9/88	1/2 Ton Pickup						1,500	9,200	10,700			1
2	10/88	Automobile								5,100		2,040	2
3	3/89	Tractor						12,000	33,000	55,000		10,000	3
4	3/90	Plow						500	5,000	5,500			4
5	12/90	Cotton Modular								21,000			5
6	9/90	Plow						5,107	1,500	6,607			6
7	10/88	Chisel								5,250		5,250	7
8													8
9													9
10													10
11													11

FORM 3.2 **PAGE** **DEPRECIATION SCHEDULE:** ______ **MACHINERY AND EQUIPMENT (CONT'D)**

LINE	DEPRECIATION INFORMATION BALANCE FOR REGULAR DEPREC	LIFE	METHOD	ANNUAL DEPREC % or $	DEPREC TAKEN IN PRIOR YEARS	START 1990 REMAINING BK. VAL AT START OF YEAR	DEPREC THIS YEAR	START 1991 REMAINING BOOK VALUE	DEPREC THIS YEAR	START 1992 REMAINING BOOK VALUE	DEPREC THIS YEAR	START 19__ REMAINING BOOK VALUE
1	10,700	5	M	150	5564	5136	1,910	3,226	1,783	1,443	1,443	-0-
2	3,060	5	M	60%	2652	408	408	-0-	-0-			
3	45,000	7	S/L		2449	42,551	6,430	36,121	6,430	29,691	6,426	23,265
4	5,500	7	S/L		393	5,107	SOLD					
5	21,000	7	S/L		1,499	19,501	3,001	16,500	3,001	13,499	2,999	10,500
6	6,607	7	M		-0-	6,607	265	6,342	1,264	5,078	993	4,085
7	-0-					-0-	-0-					
8												
9												
10												
11												

FORM 3.3 **PAGE** **DEPRECIATION SCHEDULE** ____________ **LIVESTOCK FOR BREEDING**

LINE	Date Acquired	Item Description	Head in Lot when Acq	ESTIMATED CURRENT CASH VALUE				Investment Credit	New or Used	PER HEAD DATA						START			LINE
				Per Lot												Per Head		Head	
				Start 19	Start 19	Start 19	Start 19			Cost Basis	Adjustments	Balance for Deprec	Life	Method	Annual Deprec % or $	Deprec in Prior Years	Remaining Book Value	On Hand	
1	1/88	Cows	10							400			5	M		208	192	10	1
2	3/89	Bulls	2							750			5	SL		112.50	637.50	2	2
3	9/89	Gilts	10							500			3	M		167	333	6	3
4	10/89	Boar	1							1,000			3	M		333	667	1	4
5	4/90	Gilts	4							500			3	SL/M		-0-		4	5
6																			6
7																			7
8																			8
9																			9
10																			10
11																			11

FORM 3.4 **PAGE** **DEPRECIATION SCHEDULE** ____________ **LIVESTOCK FOR BREEDING (CONT'D)**

LINE	OF 1990		START OF 1991						START OF 19__						START OF 19__						LINE
	Per Lot		Per Head		Head		Per Lot		Per Head		Head		Per Lot		Per Head		Head		Per Lot		
	Deprec This Year	Remaining Book Value	Deprec This Year	Remaining Book Value	Sold or Died	On Hand	Deprec This Year	Remaining Book Value	Deprec This Year	Remaining Book Value	Sold or Died	On Hand	Deprec This Year	Remaining Book Value	Deprec This Year	Remaining Book Value	Sold or Died	On Hand	Deprec This Year	Remaining Book Value	
1	714	1206																			1
2	300	675																			2
3	1125	873																			3
4	444	333																			4
5	333	16666																			5
6																					6
7																					7
8																					8
9																					9
10																					10
11																					11

FORM 3.5 REAL ESTATE INVESTMENT AND DEPRECIATION RECORD

Tract No ______ Date Acquired 1-76

Legal Description ______

Other Description ______

LINE	DATE ACQUIRED		ESTIMATED CURRENT CASH VALUE START 19__	START 19__	START 19__	START 19__	INVESTMENT CREDIT	COST INFORMATION TOTAL COST BASIS	ADJUSTMENTS	BALANCE FOR DEPREC.
1	1/77	Farrowing House						15,000		
2	4/77	Shop						8,500		
3	3/77	Grain Bin						12,000		

FORM 3.6 REAL ESTATE INVESTMENT AND DEPRECIATION RECORD (CON'D)

Original Basis Allocated to Land

Purchase price, carry over basis, other (A) ______

Settlement fees (B) ______

Debt assumed (C) ______

Other (D) ______

Total Original Basis (Add Lines A thru D) (E) ______

less portion of basis allocated to buildings and improvements (F) ______

less reductions in basis (G) ______

Original Basis Allocated to Land (Line E minus F minus G) (H) ______

LINE	LIFE	METHOD	ANNUAL DEPREC % or $	DEPREC TAKEN IN PRIOR YEARS	START 19 80 REMAINING BK. VAL. AT START OF YEAR	START 19__ DEPREC. THIS YEAR	REMAINING BOOK VALUE	START 19__ DEPREC. THIS YEAR	REMAINING BOOK VALUE	START 19__ DEPREC. THIS YEAR	REMAINING BOOK VALUE
1	7	M			6730.50						
2	10	M			932.36						
3	15	M			450.						

OBJECTIVE 22 Assignment Sheet 2 – See following pages

FORM 3.1 **PAGE** **DEPRECIATION SCHEDULE:** ____________ **MACHINERY AND EQUIPMENT**

LINE	DATE ACQUIRED	ITEM DESCRIPTION KIND OF MACHINE, MAKE, MODEL, SIZE	ESTIMATED CURRENT CASH VALUE START 19__	ESTIMATED CURRENT CASH VALUE START 19__	ESTIMATED CURRENT CASH VALUE START 19__	ESTIMATED CURRENT CASH VALUE START 19__	NEW OR USED	COST INFORMATION REM'NG BOOK VALUE OF TRADE-IN	COST INFORMATION CASH DIFF. PAID	COST INFORMATION TOTAL COST BASIS	INVEST. CREDIT	ADJUST-MENTS	LINE
1	1/85	Tractor								22,000		400	1
2	9/86	3/4 ton Pickup						2500	9500	12,000			2
3	10/86	Offset Disk								5,100			3
4	7/1	Springtooth								1,000		500	4
5													5
6													6
7													7
8													8
9													9
10													10
11													11

FORM 3.2 **PAGE** **DEPRECIATION SCHEDULE:** ____________ **MACHINERY AND EQUIPMENT (CONT'D)**

LINE	DEPRECIATION INFORMATION BALANCE FOR REGULAR DEPREC	LIFE	METHOD	ANNUAL DEPREC % or $	DEPREC TAKEN IN PRIOR YEARS	START 19__ REMAINING BK. VAL AT START OF YEAR	START 19__ DEPREC THIS YEAR	START 19__ REMAINING BOOK VALUE	START 19__ DEPREC THIS YEAR	START 19__ REMAINING BOOK VALUE	START 19__ DEPREC THIS YEAR	START 19__ REMAINING BOOK VALUE
1		8	DB		13,728	4272	1,068	3,204	801	2403	600.75	1,802.25
2			BD		10,500	1,500	-0-		-0-		-0-	
3		7	SL		1,895	3205	729	2476	728	174	729	1019
4		5	SL		500		-0-		-0-		-0-	
5												
6												
7												
8												
9												
10												
11												

FORM 3.3 **PAGE** **DEPRECIATION SCHEDULE** ______________ **LIVESTOCK FOR BREEDING**

LINE	Date Acquired	Item Description	Head in Lot When Acq	ESTIMATED CURRENT CASH VALUE				Investment Credit	New or Used	PER HEAD DATA						START			LINE
				Per Lot												Per Head		Head	
				Start 19	Start 19	Start 19	Start 19			Cost Basis	Adjustments	Balance for Deprec	Life	Method	Annual Deprec % or $	Deprec in Prior Years	Remaining Book Value	On Hand	
1	3/76	Heifers	25							400	300	100	8	SL		47.92	52.08	25	1
2	9/1	Bulls	2							750	350	400	5	SL		266.17	133.83	2	2
3	7/1	4 YR Cows	25							500	300	200	5	SL		60.	140	25	3
4																			4
5																			5
6																			6
7																			7
8																			8
9																			9
10																			10
11																			11

FORM 3.4 **PAGE** **DEPRECIATION SCHEDULE** ______________ **LIVESTOCK FOR BREEDING (CONT'D)**

LINE	OF 19		START OF 19___						START OF 19___						START OF 19___						LINE
	Per Lot		Per Head		Head		Per Lot		Per Head		Head		Per Lot		Per Head		Head		Per Lot		
	Deprec This Year	Remaining Book Value	Deprec This Year	Remaining Book Value	Sold or Died	On Hand	Deprec This Year	Remaining Book Value	Deprec This Year	Remaining Book Value	Sold or Died	On Hand	Deprec This Year	Remaining Book Value	Deprec This Year	Remaining Book Value	Sold or Died	On Hand	Deprec This Year	Remaining Book Value	
1	312.50	1302																			1
2	160	106.66																			2
3	1000	2500																			3
4																					4
5																					5
6																					6
7																					7
8																					8
9																					9
10																					10
11																					11

FORM 3.5

REAL ESTATE INVESTMENT AND DEPRECIATION RECORD

Tract No ________ Date Acquired 1-12-76

Legal Description ________

Other Description ________

LINE	DATE ACQUIRED		ESTIMATED CURRENT CASH VALUE				INVESTMENT CREDIT	COST INFORMATION		
			START 19__	START 19__	START 19__	START 19__		TOTAL COST BASIS	ADJUSTMENTS	BALANCE FOR DEPREC.
1		Shed						12,000		
2		Fence						7,500		
3										

FORM 3.6

REAL ESTATE INVESTMENT AND DEPRECIATION RECORD (CON'D)

Original Basis Allocated to Land

Purchase price, carry over basis, other (A) ________

Settlement fees (B) ________

Debt assumed (C) ________

Other (D) ________

Total Original Basis (Add Lines A thru D) (E) ________

less portion of basis allocated to buildings and improvements (F) ________

less reductions in basis (G) ________

Original Basis Allocated to Land (Line E minus F minus G) (H) ________

LINE	LIFE	METHOD	ANNUAL DEPREC % or $	DEPREC TAKEN IN PRIOR YEARS	START 19__	START 19__		START 19__		START 19__	
					REMAINING BK. VAL. AT START OF YEAR	DEPREC. THIS YEAR	REMAINING BOOK VALUE	DEPREC. THIS YEAR	REMAINING BOOK VALUE	DEPREC. THIS YEAR	REMAINING BOOK VALUE
1	15	SL		6,400	5600	800	4800	800	4000	800	3200
2	15	SL		3,250	4250	500	3750	500	3250	500	2750
3											

NAME______________________________SCORE ____

OBJECTIVE 1

Match terms associated with depreciation to their correct definitions. Write the correct letters in the blanks.

Part I

____ 1. Estimated value of an asset when it is no longer useful in the farm business or in the production of income

____ 2. Asset that gives productive service to the farm business over a period longer than one year

____ 3. Cash paid in addition to trade-in

____ 4. Percentage of an asset's cost to be recovered each year

____ 5. Method of prorating the cost of a working asset over its useful life

____ 6. Value of an asset to be depreciated

____ 7. Treatment of each property as placed in service on the first day of the last half of the first year of use, regardless of the month of acquisition

____ 8. Period over which the asset is expected to be useful in the farm business or in the production of income

____ 9. Property that has no material characteristics but is merely the evidence of value

a. Modified Accelerated Cost Recovery System (MACRS)

b. Useful life

c. Half-year convention

d. Depreciable balance

e. Depreciation asset

f. Computed tax

g. Cost recovery

h. Quarterly recovery

i. Basis

j. Salvage value

k. Taxable life

l. Value added

m. Adjusted tax basis

n. Salvage value

o. Salvage cost

Part II

____ 1. Most tangible, depreciable property acquired after 1980

____ 2. Measure of owner's investment in owned property

____ 3. Material property that can be felt or touched

____ 4. Depreciation methods that apply to farm properties acquired during or after 1987

____ 5. Original cost of an asset plus the value of improvements or alterations less the cost of depreciation, losses, or depletion

____ 6. Form summarizing original cost, prior depreciation allowances taken, adjustments to basis, depreciation, remaining current value for each asset, and method of prorating cost of capital assets over their useful life

____ 7. Credit against or reduction in federal income tax

____ 8. Depreciated methods that apply to farm properties acquired after 1980 and before 1987 1-1-81 through 12-31-86)

____ 9. If more than 40% of all capital asset purchases for a tax year occur in the last three months of the tax year, then a mid-quarter convention must be used instead of the half-year convention; this change was introduced with the Tax Reform Act of 1986.

a. Annual recovery

b. Useful life

c. Half-year convention

d. Depreciable balance

e. Salvage value

f. Intangible property

g. Cost recovery

h. Working asset

i. Cash difference

OBJECTIVE 2

State the purposes of depreciating an asset. Write three purposes in the spaces below.

OBJECTIVE 3

Select from a list major causes of depreciation. Write an "X" in the blank before each correct answer.

____1. Production due to poor yields

____2. Obsolescence due to new technology

____3. Wear and tear due to use

____4. Deterioration due to elements of nature

____5. Land due to erosion

OBJECTIVE 4

State rules for determining farm property subject to depreciation.

OBJECTIVE 5

Select from a list property that qualifies for depreciation. Write an "X" in the blank before each correct answer.

___1. Farm machinery and equipment

___2. Livestock acquired for work, breeding, or dairy purposes

___3. Land

___4. Farm buildings

___5. Raised livestock

___6. Other physical farm property

OBJECTIVE 6

State information to know before figuring depreciation. Write three items in the space below.

OBJECTIVE 7

Name cost recovery methods allowed under ACRS of 1986.

OBJECTIVE 8

Select from a list facts about ACRS. Write an "X" in the blank before each correct answer.

___1. Additional first year depreciation may be taken

___2. Salvage value is disregarded

___3. Methods and periods are different for new and used property

___4. Methods and periods are the same for both new and used property

___5. Half year's depreciation is allowed in the year personal property is disposed of

___6. Cost is recovered over a three-year, five-year, seven-year, fifteen-year period, or twenty-year period

____7. Salvage value must be considered

____8. Part-year depreciation for real property is determined by the number of months item was owned

____9. In a given year, the same recovery period must be used for all personal property of a class for which such election is made

OBJECTIVE 9

Name the classes of recovery property under ACRS. Write the classes in the spaces below.

____

____

____

____

____

____

OBJECTIVE 10

Distinguish between ACRS for person property and for real property. Write a "P" for personal property and an "R" for real property.

____1. Annual cost recovery is determined by multiplying the statutory percentage for the month purchased by the property's cost basis.

____2. Cost recovery is determined by multiplying the statutory percentage for the respective class of property by the item's cost basis.

OBJECTIVE 11

State the straight-line ACRS optional recovery periods.
Write the recovery periods in the space below.

____

____

____

____

____

____

____

____

OBJECTIVE 12

Distinguish between straight-line MACRS for personal property and for real property. Write a "P" for personal property and an "R" for real property.

____1. Annual cost recovery is determined by dividing the original cost basis by the regular or optional longer recovery period; first year's cost recovery is dependent upon month purchased.

____2. Annual cost recovery is determined by dividing the original cost basis by the regular or optional longer recovery period; the first year's cost recovery is independent of date purchased.

OBJECTIVE 13

Name the cost recovery methods allowed under MACRS.

____

____

____

____

____

OBJECTIVE 14

Select from a list facts about MACRS. Write an "X" in the blank before each correct answer.

____1. Is limited in amount

____2. Applies to purchases of tangible personal property

____3. Applies to inherited property

____4. Requires recapture of full expenses amount in the year of sale of disposed property

____5. May be applied to property acquired from related parties

____6. Stipulates that property must be purchased for use in trade or business

OBJECTIVE 15

List classes of recovery property for MACRS.
Write the classes in the space below.

OBJECTIVE 16

Explain briefly the declining balance method of MACRS for personal and real property.

OBJECTIVE 17

Explain how to figure straight-line MACRS for personal and real property.

OBJECTIVE 18

State characteristics of expense option. Write six characteristics in the spaces below.

OBJECTIVE 19 **List characteristics of listed property.**

____

____

____

____

OBJECTIVE 20 **Match methods of computing depreciation for management purposes to their correct descriptions.**

____ 1. Method of calculating in which total depreciation depreciation is spread evenly over life of asset

____ 2. Method of calculating depreciation in which annual depreciation is taken to be a constant proportion of each year's adjusted basis

____ 3. Method of calculating depreciation in which the rate of annual depreciation declines as asset becomes older

a. Declining-balance

b. Sum-of-the-years digits

c. Straight-line

NOTICE The following assignment sheets are not part of the written test. If these activities have not been completed, check with your instructor.

OBJECTIVE 21 **Complete a depreciation schedule for income tax purposes.** SCORE ______

OBJECTIVE 22 **Complete a depreciation schedule for management purposes.** SCORE ______

ANSWERS TO WRITTEN TEST | DEPRECIATION | III

OBJECTIVE 1

Part I	Part II
1. e	1. e
2. h	2. g
3. i	3. i
4. a	4. a
5. g	5. h
6. d	6. d
7. c	7. b
8. b	8. f
9. f	9. c

OBJECTIVE 2

Answer should include the following

- Estimating annual noncash expense
- Adjusting taxable income
- Determining book value

OBJECTIVE 3

2, 3, 4

OBJECTIVE 4

- Allow reasonable deductions for the exhaustion, wear, and tear of property used in a trade or business, or of property held for the production of income
- Include all assets that are used in the business of farming and that have a determined useful life of more than one year

OBJECTIVE 5

1, 2, 4, 6

OBJECTIVE 6

Answer should include the following

- Your basis in the property
- When the property was placed in service
- Which method of depreciation you elect to use

OBJECTIVE 7

- Regular Accelerated Cost Recovery System
- Straight-Line Accelerated Cost Recovery System

OBJECTIVE 8

2, 4, 5, 8, 9

OBJECTIVE 9

Answer should include the following

- Three-year property
- Five-year property
- Ten-year property
- Fifteen-year property
- Eighteen year property
- Nineteen year property

OBJECTIVE 10

1. R
2. P

OBJECTIVE 11

Three-year property...	3, 5, or 12 years
Five-year property...	5, 12, or 25 years
Ten-year property...	10, 25, or 35 years
Fifteen-year property...	15, 35, or 45 years
Eighteen-year property...	18, 35, or 45 years
Nineteen-year property...	19, 35, or 45 years

OBJECTIVE 12

1. R
2. P

OBJECTIVE 13

- Declining balance method (MACRS)
- Straight-line method (Alternate MACRS or alternative depreciations)

OBJECTIVE 14

1, 2, 5, 7

OBJECTIVE 15

Answer should include the following

- Three year property
- Five year property
- Seven year property
- Ten year property
- Fifteen year property
- Twenty year property
- 27.5 year property
- 31.5 year property

OBJECTIVE 16

- Personal property – Cost recovery is determined by multiplying the statutory percentage for the respective class of property by the item's cost.
- Real property used in agriculture is twenty-year property therefore you use the table for Regular MACRS Statutory Percentage for Real Property.

OBJECTIVE 17

The discussion should include:

Alternative depreciation system (straight line MACRS) for personal property and real property is figured using the straight line method of depreciation with no salvage value. Applicable recovery periods are shown in IRS publications 534 – Depreciation. The half-year convention applies.

OBJECTIVE 18

Answer should include any six of the following

- Is limited in amount ($10,000 in 1989)
- Applies to purchases of tangible personal property
- Requires recapture of full expense amount in the year of sale on disposal of property
- Stipulates that property must be purchased for use in trade or business
- May not create a tax shelter situation, i.e. cannot be used to reduce farm income to less than zero
- Is phased out when capital asset purchases exceed $200,000
- Does not reduce farm income for self employment Social Security tax.
- Deduction for passenger automobiles is severely limited – see current regulations.
- GVW limitations on trucks

OBJECTIVE 19

Answer should include the following

- Any passenger automobile or other property used as a means of transportation
- Any computer and related peripheral equipment (with exceptions)
- These types of assets must have their deduction substantiated by adequate records; no records – no deduction (see IRS Publication 534)

OBJECTIVE 20

1. c
2. a
3. b

OBJECTIVE 21

Refer to answers to Assignment Sheet 1.

OBJECTIVE 22

Refer to answers to Assignment Sheet 2.

OBJECTIVE SHEET

INCOME TAX FORMS

IV

INTRODUCTION

Numerous forms are used in the computation of an income tax return. A farmer should have a working knowledge of the forms to be filed for the farm business.

UNIT OBJECTIVE

After completing this unit, the class member should be able to identify and use various income tax forms needed in the farm business. The class member will demonstrate these competencies by completing the assignment sheets and written test with a minimum score of 85 percent.

SPECIFIC OBJECTIVES

After completing this unit, the class member should be able to:

1. Match terms associated with income tax forms to their correct definitions.
2. Select from a list factors to consider in determining filing status.
3. State when to file your income tax form.
4. Discuss factors to consider in filling out Form 1040.
5. Match types of income tax forms usually used by farmers to their correct descriptions.
6. Complete Schedule F, Form 1040. (Assignment Sheet 1)
7. Compute employer's annual tax return for agricultural employees using Form 943. (Assignment Sheet 2)
8. Compute Social Security self-employment tax. (Assignment Sheet 3)
9. Compute fuel tax credit on Form 4136. (Assignment Sheet 4)
10. Determine capital gains and losses on Form 4797 and Schedule D. (Assignment Sheet 5)
11. Complete an information return on Form 1099-MISC. (Assignment Sheet 6)

PREPARATION

- Order materials to supplement unit.
- Make transparencies or copies of supplements as appropriate.
- Secure IRS Package X.

DELIVERY

Introduction

- Point out that these forms and instructions change frequently. Always use the latest information available and use the current year's income tax forms for assignment sheets.
- Emphasize to class members that the purpose of the unit is to improve communication between themselves and their tax practitioner. Class members can then have an active role in making decisions on the tax return and have confidence his or her return was completed accurately.

Objective 1

- Point out that understanding terminology is an important step in completing a tax return.

Objective 2

- Explain that correct filing status, deductions, and exemptions can save tax dollars.

Objective 3

- Relate penalties for late filing, failure to file, and non-payment of taxes.

Objective 4

- Point out that recent tax law changes have done away with certain personal deductions and sharply limited others. Also, some types of income that were previously exempt are now taxable under certain circumstances.

Objective 5

- It is helpful to have copies of the various forms to pass out to the class as each form is discussed.

APPLICATION

Objective 6

- Note how the form has changed in the last few years. Be alert that all questions on the form are answered.

Objective 7

- Discuss new rates and limits on when payments should be made.

Objective 8

- Discuss rates and limits.

Objective 9

- Make class members aware that under current state law the farm operators tax number needs to be renewed each year in order to buy tax free fuel. Even if this tax is paid it may be recovered on form 4136.

Objective 10

- Point out that even though we do not currently have preferential treatment for capital gains, separate statutory language still exists to treat these assets separately. We will see the return of preferential tax treatment for capital gains.
- Stress the need for effective communication between the farm operator and the tax practitioner in order to minimize taxes, not just this year, but in years to come.

Objective 11

- Have class members complete Assignment Sheet 6.

  NOTE: 1990 Forms are used. If the instructor wants to use current forms, appropriate changes must be made in scenarios data.

EVALUATION

Written Test

- Explain to class members that they will be asked to demonstrate on the written test actions listed in the specific objectives.
- Give written test.

  NOTE: The written test may be given in sections if desired.

- Evaluate class members on assignment sheet activities if not previously done.

- Reteach and retest if necessary.
- Complete appropriate section of competency profile.
- Review individual and group performance in order to evaluate teaching methods. Adjust scope, sequence, or instructional approaches for additional lessons as required.

SUGGESTED RESOURCES

- IRS Publication 225 – *Farmer's Tax Guide*
- IRS Package X
- Bulk quantities of various 1099's

NOTE: All IRS publications, forms, and schedules may be ordered using Form 1045. Forms and instructions may change during the course of the year. Always use the latest information available.

UNIT REFERENCES

- *Federal Tax Guide, Volume 1, Commerce Clearing House* Inc., Chicago, Illinois, 1990.
- Wheeler, Jon D., *Tax Desk Book for Farming and Ranching*, Institute for Business Planning, Englewood Cliffs, New Jersey, 1978.
- *Farmer's Tax Guide: 1990 Edition*, Publication 225 rev., Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.
- *Your Federal Income Tax: 1990 Edition*, Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.
- *Instruction for Form 4797: 1990 Edition*, Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.
- *Declaration of Estimated Tax for Individual's: 1990 Edition*, Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.
- *Employer's Annual Tax Return for Agriculture Employees: 1990 Edition*, Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.
- *Computation of Investment Credit Form 3468: 1990 Edition*, Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.

- *Computation of Investment Credit Form 3468: 1990 Edition*, Internal Revenue Service, Department of the Treasury, Washington, D.C., 1990.

OBJECTIVE 1

Match terms associated with income tax forms to their correct definitions.

- **Adjusted basis** – Original cost of an asset plus the value of improvements or alterations less the cost of depreciation, losses, or depletion

  NOTE: Adjusted basis is used to calculate depreciation.

- **Amortization** – Repayment of a loan with a regular series of payments over a specified period of time
- **Capital assets** – For income tax purposes, any property owned and used for personal purposes, pleasure, or investment

  EXAMPLES: Home, household furnishings, family automobile, stocks, bonds

- **Capital gain** – Gain realized from the sale of a capital asset when the asset is sold for more than its adjusted basis

  NOTE: Under current law, capital gains do not have preferential tax treatment. Check current regulations.

- **Capital loss** – Loss realized from the sale of a capital asset when the asset is sold for less than its adjusted basis

  NOTE: Capital losses are limited in the amount which can be taken against current income. Check current regulations.

- **Corporation** – Legal entity separate and distinct from shareholders who own it, from the individuals who manage it, or from its employees
- **Depletion** – The using up of natural resources by the process of mining, quarrying, drilling, and felling

  EXAMPLES: Coal, metals, minerals, stone, gravel, oil, gas, timber

  NOTE: The depletion deduction allowed in determining the income from natural resources returns to the owner or operator's capital investment prorate over the productive life of such resources.

- **Depreciation** – Decline in the value of an asset due to wear and tear, action of elements, and obsolescence

  NOTE: Also called cost recovery.

- **Estimated tax** – Sum of the expected income tax and self-employment tax minus expected withholdings and credits

- **Fiduciary** – Person who occupies a position of special confidence toward others

  EXAMPLES: Trustee, executor, administrator, receiver, committee or guardian of an incompetent

- **Investment** – Laying out of funds in a business with the view of obtaining an income or profit

- **Investment tax credit** – Credit against or reduction in federal income tax equal to a percent of qualified investments

- **Listed property** – Property that is subject to both business and personal use

  EXAMPLES: Automobiles, light trucks, and computers

  NOTE: Business use must be substantiated by adequate records and, depending on percent of business usage, may be subject to different and restrictive rules on depreciation and section 179 expense deduction option.

- **Ordinary asset** – Any asset that is not a capital asset

  EXAMPLES: Items held for resale; land and depreciable properties used in your farming business; items held for sale in the ordinary course of your business

  NOTE: Certain property used in farming is known as *Section 1231 property*. A gain or loss on the sale, exchange, or involuntary conversion of Section 1231 property may be a capital gain or loss or an ordinary gain or loss as reported on Form 4797.

- **Partnership** – Created when two or more persons join together to conduct a business and to share in its profits and losses

- **Property used in farming** – Property used in the farming business or for the production of rents or royalties and held more than one year; any property held more than one year that is subject to involuntary conversion

- **Section 179 Deduction (expense option)** – Election to treat the cost of certain qualifying property as an expense rather than as a capital expenditure

  NOTE: Amount is limited (currently $10,000), is phased out above certain investment levels, and may not be used to create a tax loss or reduce self-employment income subject to self-employment social security tax. Unused amounts, because of these restrictions, may be carried over to future tax years – check current regulations.

- **Sole proprietorship** – An individual who owns, manages, assumes all the risk, and derives all the profits from a business

- **Taxable income** – Adjusted gross income less the sum of excess itemized deductions and personal exemptions

  NOTE: A corporation's taxable income is gross income minus the deductions allowed by law.

OBJECTIVE 2

Select from a list factors to consider in determining filing status.

NOTE: IRS forms and instructions may change during the year. Always use the latest information and forms available. Factors considered are for 1990.

- Class members must file if single, legally separated, divorced, or married but living apart from their spouse for the entire year; and earn at least $5,300, if under the age of 65, or $6,100, if over the age of 65.

- Class members must file if they can be claimed as a dependent on their parents' return and have taxable dividends, interest, or other unearned income of $500 or more ($3,250 if there was no unearned income).

- Class member must file if they are a widow or widower with dependent children and earn over $9,550, if under age 65 and their spouse has died within the past two years or if they are over age 65 and earned more than $10,200.

- Class members must file if married, filing jointly, living with their spouse and earn at least $9,550, if both are under age 65, $10,200, if one is 65 or older, or $10,850, if both are 65 or older.

- Class members must file if self-employed and net earnings from self employment are at least $400.

  NOTE: A class member must file an income tax return if he of she has gross income that meets the statutory filing levels. If a class member is not required to file a return, then a return should be filed to receive a refund if income tax was withheld.

OBJECTIVE 3

State when to file your income tax form.

NOTE: You have two choices of when to file if your tax year starts January 1 and if at least two-thirds of your estimated gross income for this tax year is from farming, or if at least two-thirds of your gross income for last year was from farming.

- File an estimate of your tax and pay this amount by January 15 of the following year, then file the return for the prior year and pay any balance due by April 15.

  NOTE: Fiscal-year class member's due date is the first day of the third month following the close of the taxable year.

- File your prior year's return and pay the tax on or before March 1.

  NOTE: If you meet the gross income test and file your prior year's return and pay the tax by March 1, you will not have to pay a penalty for underpaying estimated tax.

- Certain information returns must be filed by January 31.

  Examples: Form 943 and 1099's

- Corporations must file a calendar year tax return by March 15.
- Partnerships must file a calendar year tax return by April 15.
- Franchise tax returns (state) for corporations are due July 1 (Oklahoma).

OBJECTIVE 4

Discuss factors to consider in filling out Form 1040.

- Determine whether the individual was married or single.

  NOTE: In most cases, an individual will pay less tax if filing a joint return instead of separate returns.

- One exemption is allowed for the individual filing the return; exemptions also are allowed for a spouse, being 65 or older and blind, and having dependents, such as children, mother, or father.

- All wages should be reported.

EXAMPLES: Employer supplemental unemployment benefits; salaries; bonuses; commissions; fees and tips; dividends; interest from savings and loan associations; interest on tax refunds; interest on bank deposits; profits from business; share of profits from annuities; endowments; profits from sale or exchange of real estate, securities or other properties; rents and royalties; prizes and awards; fuel tax credit; state tax refund (if itemized deductions the previous year); social security benefits

- Some income may not need to be reported.

EXAMPLES: Disability retirement payments and other Veteran's Administration benefits; dividends on veteran's insurance; life insurance sums received at a person's death; worker's compensation; interest on certain state and municipal bonds

NOTE: Certain of these excluded items may need to be considered when calculating Alternative Minimum Tax.

- Class member may adjust taxable income with employee business expenses, payment to Keogh (H.R.10) Retirement Plan, payments to an Individual Retirement Account (IRA), or the self-employed health insurance deduction.

OBJECTIVE 5

Match types of income tax forms usually used by farmers to their correct descriptions.

NOTE: Additional information may be found in IRS Publication 225, *Farmer's Tax Guide.*

- **Form 1040** – Individual income tax return
- **Schedule A (1040)** – List of nonbusiness deductions
- **Schedule B (1040)** – List of interest and dividend income
- **Schedule F (1040)** – List of all farm income and deductions which determines net farm profit or loss
- **Schedule SE (1040)** – Used to figure Social Security self-employment tax
- **Schedule D (1040)** – Used to show gains and losses from sales of capital assets

- **Form 4797** – Used to report gains and losses from the sale or exchange of business property and from certain involuntary conversions
- **Form 4684** – Used to report gains and losses from casualty and theft of business and personal use property
- **Form 4255** – Used to figure the tax from recomputing a prior year's investment credit
- **Form 4136** – Used to figure the tax credit for federal tax on gasoline, special fuels, and lubricating oil
- **Form 943** – Employer's annual tax return for agricultural employees

  NOTE: Form 943 must be filed before January 31 of the following year if you were required to withhold and pay Social Security tax or if you withheld income tax under voluntary withholding agreements on farm labor wages paid during the prior calendar year. If you made timely tax deposits, you may file on or before February 10 of the following year.
- **Form 1040-ES** – Used to declare an estimate of tax if you choose to estimate
- **Form 2210-F** – Used by farmers to figure any underpayment of estimated tax and the underpayment penalty
- **Form 1096** – Used to summarize and transmit the various 1099 forms
- **Form 1099** – Information return used to report the total payment of $600 or more made during the year to another person in the course of your trade or business

  NOTE: Report on Form 1099-INT interest payments of $600 or more. Payments of $600 or more made for rents, royalties, prizes, awards and other payments that are not for services should be made on Form 1099-MISC. Report on Form 1099-NEC payments of $600 or more for fees, commissions, prizes, awards, or any other compensation for services paid to persons who are not your employees. Separate copies of each Form 1099 must be prepared for each person.
- **Form 6251** – Used to figure the alternative minimum tax
- **Form 940** – Employer's annual federal unemployment tax return

NOTE: If you were subject to the FUTA tax, the return must be filed by January 31 of the following year. If you made timely deposits of the FUTA tax, you may file on February 10 of the following year.

- **Form W-2** – Wage and tax statement

  NOTE: The W-2 Form must be prepared for every employee to whom you paid cash wages subject to the employee Social Security tax or from whose wages, in voluntary agreement with the employee, you withheld federal income tax. You also must prepare a Form W-2 for every employee to whom you paid any amount for services, including the cash value of any payment you made that was not in cash if you are in a trade or business. Send Copy A of each Form W-2 to the Social Security Administration with a completed Form W-3, *Transmittal of Income and Tax Statements,* on or before the last day of February. Copies B and C of Form W-2 must be given to the employee by January 31.

- **Form 2290** – Federal use tax return on highway motor vehicles

  NOTE: Must be filed if you have a truck or truck-tractor registered in your name that is a highway motor vehicle, if it is required to be registered for highway use, if it is actually used at least once on a public highway, and if it comes within one of the taxable categories as to type and weight

- **Form 1065** – Information return showing the income and deductions of a partnership

  NOTE: Partnerships pay no income tax. Each partner's distributive share of the partnership income, gain, loss, so forth must be included on the individual's tax return.

- **Form 1120** – Corporation income tax return filed by ordinary corporation

  NOTE: Additional information may be found in IRS publication 542, *Tax Information on Corporations.*

- **Form 1120-S** – Small business corporation income tax return used by Subchapter S corporations

  NOTE: Additional information may be found in IRS Publication 589, *Tax Information on Subchapter S Corporations.*

- **Form 8645** – Used to claim deductions for expenses to conserve soil, water or to prevent erosion

SUPPLEMENTS 1 – 5	INCOME TAX FORMS	IV
SUPPLEMENT 1	1040 U.S. Individual Income Tax Return	
SUPPLEMENT 2	Schedule A – Itemized Deductions	
SUPPLEMENT 3	Schedule B – Interest and Dividend Income	
SUPPLEMENT 4	Form 1099 – Form 1099	
SUPPLEMENT 5	Oklahoma Form 511 – State of Oklahoma Individual Income Tax Return	

Form **1040** Department of the Treasury—Internal Revenue Service

U.S. Individual Income Tax Return 1990

(0)

For the year Jan.-Dec. 31, 1990, or other tax year beginning , 1990, ending , 19 OMB No. 1545-0074

Label (See instructions on page 8.)

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial Last name

If a joint return, spouse's first name and initial Last name

Home address (number and street). (If you have a P.O. box, see page 9.) Apt. no.

City, town or post office, state, and ZIP code. (If you have a foreign address, see page 9.)

Your social security number

Spouse's social security number

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign (See page 9.)

Do you want $1 to go to this fund? ☐ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status

Check only one box.

1 ☐ Single. (See page 10 to find out if you can file as head of household.)

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ▶ ____________

4 ☐ Head of household (with qualifying person). (See page 10.) If the qualifying person is your child but not your dependent, enter this child's name here. ▶ ____________

5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 10.)

Exemptions

(See instructions on page 10.)

6a ☐ **Yourself** If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2.

b ☐ **Spouse**

c **Dependents:**

(1) Name (first, initial, and last name)	(2) Check if under age 2	(3) If age 2 or older, dependent's social security number	(4) Dependent's relationship to you	(5) No. of months lived in your home in 1990

If more than 6 dependents, see instructions on page 11.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐

e Total number of exemptions claimed

No. of boxes checked on 6a and 6b ____

No. of your children on 6c who:

- **lived with you** ____
- **didn't live with you due to divorce or separation (see page 11)** ____

No. of other dependents on 6c ____

Add numbers entered on lines above ▶ ☐

Income

Attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 8.

Attach check or money order on top of any Forms W-2, W-2G, or W-2P.

7 Wages, salaries, tips, etc. *(attach Form(s) W-2)* 7

8a **Taxable** interest income *(also attach Schedule B if over $400)* 8a

b **Tax-exempt** interest income (see page 13). DON'T include on line 8a 8b

9 Dividend income *(also attach Schedule B if over $400)* 9

10 Taxable refunds of state and local income taxes, if any, from worksheet on page 14 10

11 Alimony received 11

12 Business income or (loss) *(attach Schedule C)* 12

13 Capital gain or (loss) *(attach Schedule D)* 13

14 Capital gain distributions not reported on line 13 (see page 14) 14

15 Other gains or (losses) *(attach Form 4797)* 15

16a Total IRA distributions 16a ____ 16b Taxable amount (see page 14) 16b

17a Total pensions and annuities 17a ____ 17b Taxable amount (see page 14) 17b

18 Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)* 18

19 Farm income or (loss) *(attach Schedule F)* 19

20 Unemployment compensation (insurance) (see page 16) 20

21a Social security benefits 21a ____ 21b Taxable amount (see page 16) 21b

22 Other income (list type and amount—see page 16) 22

23 Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶ 23

Adjustments to Income

(See instructions on page 17.)

24a Your IRA deduction, from applicable worksheet on page 17 or 18 24a

b Spouse's IRA deduction, from applicable worksheet on page 17 or 18 24b

25 One-half of self-employment tax (see page 18) 25

26 Self-employed health insurance deduction, from worksheet on page 18 26

27 Keogh retirement plan and self-employed SEP deduction 27

28 Penalty on early withdrawal of savings 28

29 Alimony paid. Recipient's SSN ▶ ____________ 29

30 Add lines 24a through 29. These are your **total adjustments** ▶ 30

Adjusted Gross Income

31 Subtract line 30 from line 23. This is your **adjusted gross income.** *If this amount is less than $20,264 and a child lived with you, see page 23 to find out if you can claim the "Earned Income Credit" on line 57* ▶ 31

Tax Computation

If you want IRS to figure your tax, see instructions on page 19

32 Amount from line 31 (adjusted gross income) 32

33a Check if ☐ **You** were 65 or older ☐ Blind ☐ **Spouse** was 65 or older ☐ Blind
Add the number of boxes checked above and enter the total here ▶ 33a ☐

b If your parent (or someone else) can claim you as a dependent, check here ▶ 33b ☐

c If you are married filing a separate return and your spouse itemizes deductions, or you are a dual status alien, see page 19 and check here ▶ 33c ☐

34 Enter the **larger** of
- Your **standard deduction** (from the chart (or worksheet) on page 20 that applies to you), **OR**
- Your **itemized deductions** (from Schedule A, line 27)
  If you itemize, attach Schedule A and check here ▶ ☐

34

35 Subtract line 34 from line 32 35

36 Multiply $2,050 by the total number of exemptions claimed on line 6e 36

37 **Taxable income.** Subtract line 36 from line 35. (If line 36 is more than line 35, enter -0-.) 37

38 Enter tax. Check if from a ☐ Tax Table, b ☐ Tax Rate Schedules, or c ☐ Form 8615 (see page 21)
(If any is from Form(s) 8814, enter that amount here ▶ d ______) 38

39 Additional taxes (see page 21). Check if from a ☐ Form 4970 b ☐ Form 4972 39

40 Add lines 38 and 39 ▶ 40

Credits

(See instructions on page 21.)

41 Credit for child and dependent care expenses *(attach Form 2441)* 41

42 Credit for the elderly or the disabled *(attach Schedule R)* 42

43 Foreign tax credit *(attach Form 1116)* 43

44 General business credit. Check if from
a ☐ Form 3800 or b ☐ Form (specify) ______ 44

45 Credit for prior year minimum tax *(attach Form 8801)* 45

46 Add lines 41 through 45 46

47 Subtract line 46 from line 40. (If line 46 is more than line 40, enter -0-.) ▶ 47

Other Taxes

48 Self-employment tax *(attach Schedule SE)* 48

49 Alternative minimum tax *(attach Form 6251)* 49

50 Recapture taxes (see page 22). Check if from a ☐ Form 4255 b ☐ Form 8611 50

51 Social security tax on tip income not reported to employer *(attach Form 4137)* 51

52 Tax on an IRA or a qualified retirement plan *(attach Form 5329)* 52

53 Advance earned income credit payments from Form W-2 53

54 Add lines 47 through 53. This is your **total tax** ▶ 54

Payments

Attach Forms W-2, W-2G, and W-2P to front.

55 Federal income tax withheld **(if any is from Form(s) 1099, check ▶ ☐)** 55

56 1990 estimated tax payments and amount applied from 1989 return 56

57 **Earned income credit** (see page 23) 57

58 Amount paid with Form 4868 (extension request) 58

59 Excess social security tax and RRTA tax withheld (see page 24) 59

60 Credit for Federal tax on fuels *(attach Form 4136)* 60

61 Regulated investment company credit *(attach Form 2439)* 61

62 Add lines 55 through 61. These are your **total payments** ▶ 62

Refund or Amount You Owe

63 If line 62 is more than line 54, enter amount **OVERPAID** ▶ 63

64 Amount of line 63 to be **REFUNDED TO YOU** ▶ 64

65 Amount of line 63 to be **APPLIED TO YOUR 1991 ESTIMATED TAX** ▶ 65

66 If line 54 is more than line 62, enter **AMOUNT YOU OWE**. Attach check or money order for full amount payable to "Internal Revenue Service." Write your name, address, social security number, daytime phone number, and "1990 Form 1040" on it. 66

67 Estimated tax penalty (see page 25) 67

Sign Here

Keep a copy of this return for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature	Date	Your occupation
▶ Spouse's signature (if joint return, BOTH must sign)	Date	Spouse's occupation

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶		E.I. No.	
		ZIP code	

SCHEDULES A&B
(Form 1040)
Department of the Treasury
Internal Revenue Service (P)

Schedule A—Itemized Deductions

(Schedule B is on back)

▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).

OMB No. 1545-0074
1990
Attachment Sequence No. 07

Name(s) shown on Form 1040

Your social security number

Medical and Dental Expenses		**Caution:** *Do not include expenses reimbursed or paid by others.*			
	1	Medical and dental expenses. (See page 27 of the Instructions.)		1	
	2	Enter amount from Form 1040, line 32	2		
	3	Multiply the amount on line 2 by 7.5% (.075). Enter the result		3	
	4	Subtract line 3 from line 1. Enter the result. If less than zero, enter -0- ▶			4
Taxes You Paid (See Instructions on page 27.)	5	State and local income taxes		5	
	6	Real estate taxes		6	
	7	Other taxes. (List—include personal property taxes.) ▶		7	
	8	Add the amounts on lines 5 through 7. Enter the total ▶			8
Interest You Paid (See Instructions on page 27.)	9a	Deductible home mortgage interest paid to financial institutions and reported to you on Form 1098. Report deductible points on line 10		9a	
	b	Other deductible home mortgage interest. (If paid to an individual, show that person's name and address.) ▶		9b	
	10	Deductible points. (See Instructions for special rules.)		10	
	11	Deductible investment interest (attach Form 4952 if required). (See page 28.)		11	
	12a	Personal interest you paid. (See page 28.)	12a		
	b	Multiply the amount on line 12a by 10% (.10). Enter the result		12b	
	13	Add the amounts on lines 9a through 11, and 12b. Enter the total ▶			13
Gifts to Charity (See Instructions on page 29.)		**Caution:** *If you made a charitable contribution and received a benefit in return, see page 29 of the Instructions.*			
	14	Contributions by cash or check		14	
	15	Other than cash or check. (You **MUST** attach Form 8283 if over $500.)		15	
	16	Carryover from prior year		16	
	17	Add the amounts on lines 14 through 16. Enter the total ▶			17
Casualty and Theft Losses	18	Casualty or theft loss(es) (attach Form 4684). (See page 29 of the Instructions.) ▶			18
Moving Expenses	19	Moving expenses (attach Form 3903 or 3903F). (See page 30 of the Instructions.) ▶			19
Job Expenses and Most Other Miscellaneous Deductions (See Instructions on page 30 for expenses to deduct here.)	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. (You **MUST** attach Form 2106 if required. See Instructions.) ▶		20	
	21	Other expenses (investment, tax preparation, safe deposit box, etc.). List type and amount ▶		21	
	22	Add the amounts on lines 20 and 21. Enter the total		22	
	23	Enter amount from Form 1040, line 32	23		
	24	Multiply the amount on line 23 by 2% (.02). Enter the result		24	
	25	Subtract line 24 from line 22. Enter the result. If less than zero, enter -0- ▶			25
Other Miscellaneous Deductions	26	Other (from list on page 30 of Instructions). List type and amount ▶			26
Total Itemized Deductions	27	Add the amounts on lines 4, 8, 13, 17, 18, 19, 25, and 26. Enter the total here. Then enter on Form 1040, line 34, the **LARGER** of this total or your standard deduction from page 20 of the Instructions ▶			27

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule A (Form 1040) 1990

Name(s) shown on Form 1040 (Do not enter name and social security number if shown on other side.)

Your social security number

Schedule B—Interest and Dividend Income

Attachment Sequence No. 08

Part I Interest Income

(See Instructions on pages 13 and 30.)

If you received more than $400 in taxable interest income, or you are claiming the exclusion of interest from series EE U.S. savings bonds issued after 1989 (see page 31), you must complete Part I. List ALL interest received in Part I. If you received more than $400 in taxable interest income, you must also complete Part III. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 31.

Interest Income		Amount
1 Interest income. (List name of payer—if any interest income is from seller-financed mortgages, see instructions and list that interest first.) ▶	1	
2 Add the amounts on line 1. Enter the total	2	
3 Enter the excludable savings bond interest, if any, from Form 8815, line 14. Attach Form 8815 to Form 1040	3	
4 Subtract line 3 from line 2. Enter the result here and on Form 1040, line 8a ▶	4	

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement, from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

Part II Dividend Income

(See Instructions on pages 13 and 31.)

If you received more than $400 in gross dividends and/or other distributions on stock, you must complete Parts II and III. If you received, as a nominee, dividends that actually belong to another person, see page 31.

Dividend Income			Amount
5 Dividend income. (List name of payer—include on this line capital gain distributions, nontaxable distributions, etc.) ▶		5	
6 Add the amounts on line 5. Enter the total		6	
7 Capital gain distributions. Enter here and on Schedule D*	7		
8 Nontaxable distributions. (See the Inst. for Form 1040, line 9.)	8		
9 Add the amounts on lines 7 and 8. Enter the total		9	
10 Subtract line 9 from line 6. Enter the result here and on Form 1040, line 9 ▶		10	

Note: If you received a Form 1099-DIV, or substitute statement, from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

**If you received capital gain distributions but do not need Schedule D to report any other gains or losses, see the Instructions for Form 1040, lines 13 and 14.*

Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 31.)

If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.	Yes	No
11a At any time during 1990, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 31 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		
b If "Yes," enter the name of the foreign country ▶	▨	▨
12 Were you the grantor of, or transferor to, a foreign trust that existed during 1990, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926		

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule B (Form 1040) 1990

BEST COPY AVAILABLE

☐ VOID ☐ CORRECTED

PAYER'S name, street address, city, state, and ZIP code		1 Rents $	OMB No. 1545-0115 1990 Statement for Recipients of	**Miscellaneous Income**
		2 Royalties $		
		3 Prizes, awards, etc. $		
PAYER'S Federal identification number	RECIPIENT'S identification number	4 Federal income tax withheld $	5 Fishing boat proceeds $	
RECIPIENT'S name		6 Medical and health care payments $	7 Nonemployee compensation $	**Copy 1 For State Tax Department**
Street address		8 Substitute payments in lieu of dividends or interest $	9 Payer made direct sales of $5,000 or more of consumer products to a buyer (recipient) for resale ▶ ☐	
City, state, and ZIP code		10 Crop insurance proceeds $	11 State income tax withheld $	
Account number (optional)		12 State/Payer's state number		

Form **1099-MISC**

Department of the Treasury - Internal Revenue Service

Instructions for Recipient

If you are an individual, report the taxable amounts shown on this form on your tax return, as explained below. (Other taxpayers, such as fiduciaries or partnerships, report the amounts on the corresponding lines of your tax return.)

Boxes 1 and 2.—Report on Schedule E (Form 1040), or Schedule C (Form 1040) if you provided services that were primarily for your customer's convenience, such as regular cleaning, changing linen, or maid service.

Box 3.—Report on the line for "Other income" on Form 1040 and identify the payment. If it is trade or business income, report this amount on Schedule C or F (Form 1040).

Box 4.—Shows backup withholding. For example, persons not furnishing their taxpayer identification number to the payer become subject to backup withholding at a 20% rate on certain payments. See **Form W-9,** Request for Taxpayer Identification Number and Certification, for information on backup withholding. **Include this on your income tax return as tax withheld.**

Box 5.—An amount in this box means the fishing boat operator considers you self-employed. Report this amount on Schedule C (Form 1040). **See Publication 595,** *Tax Guide for Commercial Fishermen.*

Box 6.—Report on Schedule C (Form 1040).

Box 7.—Generally, this amount is considered income from self-employment. Report it as part of your trade or business income on Schedule C or F (Form 1040). If you are not self-employed, amounts paid to you for services rendered are generally reported on Form 1040 on the line for "Wages, salaries, tips, etc."

If there are two amounts shown in this box, one may be labeled "EPP." This represents excess golden parachute payments. You must pay a 20% excise tax on this amount. See your Form 1040 instructions under "Other Taxes." The unlabeled amount is your total compensation.

Box 8.—Report as "Other income" on your tax return. The amount shown is substitute payments in lieu of dividends or tax-exempt interest received by your broker on your behalf after transfer of your securities for use in a short sale.

Box 9.—An entry in the checkbox means sales to you of consumer products on a buy-sell, deposit-commission, or any other basis for resale have amounted to $5,000 or more. The person filing this return does not have to show a dollar amount in this box. Any income from your sale of these products should generally be reported on Schedule C (Form 1040).

Box 10.—Report on the line for "Crop insurance proceeds" on Schedule F (Form 1040).

Certain amounts shown on this form may be subject to self-employment (social security) tax computed on **Schedule SE (Form 1040).** See **Publication 533,** Self-Employment Tax, for more information on amounts considered self-employment income. Since no income or social security taxes are withheld by the payer, you may have to make estimated tax payments if you are still receiving these payments. See **Form 1040-ES,** Estimated Tax for Individuals.

1990
FORM
511

STATE OF OKLAHOMA INDIVIDUAL INCOME TAX RETURN

TO BE FILED NOT LATER THAN THE 15TH DAY OF THE FOURTH MONTH AFTER THE CLOSE OF TAXABLE YEAR

For the year January 1-December 31, 1990, or other taxable year beginning __________, 1990, ending __________, 19___

First name and initial (if joint return, give first names and initials of both) Last Name

Your Social Security Number

Present home address (number and street, including apartment number, or rural route)

Spouse's Social Security Number

City, town or post office, State Zip

Occupation Yours ➤ __________
Spouse's ➤ __________

1 __ Single
2 __ Married filing joint return *(even if only one had income)*
3 __ Married filing separately. If spouse is also filing, give Soc.Sec. No. and name here __________
4 __ Head of Household with Qualifying Person
5 __ Qualifying widow(er) with dependent child (Year spouse died 19__)

☐ RESIDENT
☐ PART-YEAR RESIDENT - From __________ to __________
☐ NONRESIDENT *(State of Residence)* __________
Did you file an Oklahoma Return for 1989? Yes ☐ No ☐
County of Residence (See Instructions) ....

EXEMPTIONS

CAUTION

See specific instructions for Line 14 before claiming exemptions

	Regular	Special	Blind	
Yourself	☐	☐	☐	______
Spouse	☐	☐	☐	______
Number of dependent children				______
Number of other dependents				______
If you can be claimed as a dependent on another person's return, enter 0 TOTAL (enter here and on line 14)				______

PART START HERE - To Arrive at Oklahoma Adjusted Gross Income

Write Social Security Number on Check or Money Order — Attach Here

1 **Federal Adjusted Gross Income (line 31, Federal Form 1040 or Line 16, Federal Form 1040A or Line 3, Federal Form 1040EZ).** .... 1 ______ 00

SUBTRACTIONS - From Federal Adjusted Gross Income

2 Interest on U.S. Government Obligations *(Attach Federal Sch. B and detail)* .... 2 ______ .00
3 Income Exempt by Statute *(Describe and attach W-2P)* .... 3 ______ .00
4 Other Subtractions *(Describe and attach Schedule)* .... 4 ______ .00
5 Add lines 2, 3 and 4 .... ➤ 5 ______ 00
6 Line 1 minus line 5 .... ➤ 6 ______ 00

Nonresidents and Part-Year Residents use Lines 1,2,5,6 and 12 only. Attach Oklahoma Schedule "D" and enter your Oklahoma Adjusted Gross Income from Schedule "D" on line 12 below.

7 Out of State Income, **except wages** *(Describe and attach Fed Sch.)* __________ 7 ______ 00
8 Line 6 minus line 7 .... ➤ 8 ______ 00

ADDITIONS - To Federal Adjusted Gross Income

9 State and Municipal Bond Interest *(not specifically exempted)* .... 9 ______ 00
10 Out of State Losses *(Describe)*: __________ 10 ______ 00
11 Other Additions *(Describe)*: __________ 11 ______ 00
12 **Oklahoma Adjusted Gross Income** (add lines 8, 9, 10 and 11) Enter here and on line 25 (If the amount on this line is smaller than line 1, attach a copy of your Federal Income Tax Return) .... ➤ 12 ______

PART DEDUCTIONS AND EXEMPTIONS

Attach Copies of Form(s) W-2 and W-2P Here

13 Deductions: Enter total amount you claimed on line 27 of Federal Schedule A *(You cannot itemize deductions unless you itemize on your Federal Return).*

-OR-

If you did not itemize on your Federal Return, enter the larger of $1000.00 or 15% of Oklahoma Adjusted Gross Income (line 12) but not to exceed $2000.00. If married filing separate enter the larger of $500.00 or 15% of Oklahoma Adjusted Gross Income (line 12) but not to exceed $1000.00 .... 13 ______ 00

14 Exemptions: Total number claimed above: ______ x $1000.00 .... 14 ______ 00
15 Total: Add line 13 to line 14 .... 15 ______ 00
16 Percentage allowable: divide line 12 by line 6 *(limited to 100%)* If lines 6 and 12 are the same enter 100% 16 ______ %
17 Multiply line 15 by percentage on line 16. Enter here and on line 33 .... ➤ 17 ______ 00

PART FEDERAL INCOME TAX DEDUCTION

18 1990 Federal Income Tax **(Not the amount of tax withheld)** (see instructions) .... 18 ______ 00
19 Percentage allowable: divide line 12 by line 1 *(limited to 100%)* If lines 1 and 12 are the same enter 100% 19 ______ %
20 Multiply line 18 by percentage on line 19. Enter here and on line 36 .... ➤ 20 ______ 00

PART IV CREDIT FOR CHILD CARE--RESIDENTS ONLY

21	Federal child care credit. (see instruction and attach copy of 2441 or Sch. 2 of 1040A)		21 ___ 00
22	Multiply line 21 by 20%		22 ___ 00
23	Percentage allowable: divide line 12 by line 1 (limited to 100%) If lines 1 and 12 are the same enter 100%		23 ___ %
24	Oklahoma child care credit (multiply line 22 by line 23). Enter here and on line 40 ➤		24 ___ 00

PART V ADJUSTMENTS NECESSARY TO ARRIVE AT OKLAHOMA TAXABLE INCOME

25	**Oklahoma Adjusted Gross Income** (from page 1, Part 1, line 12) ➤		25 ___ 00
26	Partial Military Pay Exclusion, (Not retirement see instructions)	26 ___ 00	
27	Qualifying Disability Deduction (see instructions)	27 ___ 00	
28	Political Contributions (Limited to $100 Single, $200 Joint)	28 ___ 00	
29	Interest Qualifying for Exclusion (Limited to $100 Single, $200 Joint)	29 ___ 00	
30	(For Office Use Only)	30 ___	
31	Add lines 26, 27, 28, and 29		31 ___ 00
32	**Oklahoma Income after Adjustments** (Subtract line 31 from line 25) ➤		32 ___ 00
33	Deductions and exemptions (from Part II, line 17)		33 ___ 00
34	**Oklahoma Taxable Income** For Method I (Subtract line 33 from line 32) ➤		34 ___ 00
35	Tax From Rate Schedule M ☐ N ☐	35 ___ 00	
36	Federal Income Tax Deduction (from Part III, line 20)		36 ___ 00
37	**Oklahoma Taxable Income** – For Method II (Subtract line 36 from line 34)		37 ___ 00
38	Tax From Rate Schedule R ☐ S ☐	38 ___ 00	

PART VI TAX COMPUTATION--CREDITS--REFUND OR AMOUNT DUE

39	Oklahoma Income Tax--Enter Lesser of line 35 ☐ or line 38 ☐ ➤			39 ___ 00
40	Credit for Child Care (from Part IV, line 24)		40 ___ 00	
41	Credit for Tax Paid Another State (Schedule E)		41 ___ 00	
42	Credit for Solar Energy Device (attach Form 508)		42 ___ 00	
43	Oklahoma Investment/New Jobs Credit (attach Form 506)		43 ___ 00	
44	Other Credits (Attach 511CR and appropriate forms)		44 ___ 00	
45	Total (add lines 40, 41, 42, 43 and 44)			45 ___ 00
46	Balance (subtract line 45 from line 39, but not less than zero) ➤			46 ___ 00
47	Oklahoma Income Tax Withheld (attach W-2's) ➤		47 ___ 00	
48	a. 1990 Oklahoma Estimated Tax Payments ➤	48a ___ 00		
	b. 1990 Payments With Extension ➤	48b ___ 00		
	c. Total lines 48a and 48b ➤		48c ___ 00	
49	Low Income Property Tax Credit (attach Form 538-H) ➤		49 ___ 00	
50	Sales Tax Credit (attach Form 538-S) ➤		50 ___ 00	
51	Total (add lines 47, 48c, 49 and 50) ➤			51 ___ 00
52	If line 51 is larger than line 46 enter amount OVERPAID ➤			52 ___ 00
53	Amount of line 52 to be credited on 1991 Estimated Tax		53 ___ 00	
	DEDUCTIONS FROM REFUND: If you wish to donate from your tax refund, check and enter amount			
54	Oklahoma Nongame Wildlife Program. ☐ $2, ☐ $5, or ☐ $ _____		54 ___ 00	
55	Indigent Care Program. ☐ $2, ☐ $5, or ☐ $ _____		55 ___ 00	
56	Add lines 53, 54 and 55 and enter amount ➤			56 ___ 00
57	Amount to be REFUNDED TO YOU (line 52 minus line 56) REFUND →			57 ___ 00
58	If line 46 is larger than line 51 enter TAX DUE TAX DUE ➤			58 ___ 00
59	Underpayment of Estimated Tax, penalty 5% _____, Interest _____ (Attach OW-8-P)			59 ___ 00
60	For delinquent payment, add penalty of 5% _____ plus interest at 1¼% per month _____			60 ___ 00
61	Total tax, penalty and interest (add lines 58, 59 and 60) BALANCE DUE →			61 ___ 00

The Oklahoma Tax Commission is not required to give actual notice to taxpayer of changes in any state tax law

REMIT TO THE OKLAHOMA TAX COMMISSION
OKLAHOMA CITY, OKLAHOMA 73194-0009

If the Tax Commission may discuss this return with your tax preparer please check here ☐

Sign here

Under penalties of perjury, I declare that I have examined this return, including accompanying statements, and to the best of my knowledge and belief it is true, correct, and complete

➡ ________________
Your Signature (Date)

➡ ________________
Spouse's signature (if filing jointly, BOTH must sign)

➡ ________________
Signature of preparer other than taxpayer, based on all information of which he has any knowledge (Date)

____
Preparer's Address

____
Preparer's I.D. No Preparers Phone No

ASSIGNMENT SHEET 1 | **INCOME TAX FORMS** | **IV**

OBJECTIVE 6 Complete schedule F, FORM 1040.

NAME______________________________SCORE ____

INTRODUCTION You will need to file Schedule F, Form 1040, if you qualify under the IRS definition of farmer or if you have farm income.

DIRECTIONS Fill in the following Schedule F, Form 1040, according to the information given.

Cash receipts

- Sold 50 stocker cattle weighing 700 pounds @ 80¢/lb. for $28,000.00; originally bought the 50 head @ 500 pounds @90¢/lb for $22,500.00
- Sold 135 calves raised from the herd; 70 were steer calves selling @500 pounds for 83¢/lb., and 65 were heifers selling @ 500 pounds for 75¢/lb.; total revenue was $53,425.00
- Sold 40 spring lambs weighing 90 pounds @ 60¢/lb.; total revenue was $2,160.00
- Sold 14 raised 715 pound yearling steers @ $480.00 each for a total of $6,720.00
- Sold 20 feeder pigs @ 30 pounds for $35.00 each; total revenue was $700.00
- Sold 156 dozen eggs @ 70¢/dozen; total revenue was $109.20
- Sold $300.00 of vegetables to local grocer
- Sold 200 tons prairie hay @ $50/ton; total revenue was $10,000.00
- Performed custom combine operation @ $10.00 per acre for neighbors; cut 1,500 acres; total revenue was $15,000.00
- Federal gasoline tax credit from previous year was $54.00

Cash expenses

- Hired labor for $4,000

- Machinery and equipment repairs and maintenance, including hay baler, tractor, and combine used in custom operation, totaled $10,489.00
- Interest expense on operating notes for stocker calves was $1,125.00; farm land payment interest was $9,000.00; farm operating loan interest was $3,000.00
- Rent for pasture was $1,500.00
- Feed purchased

    a. Stockers @ $9,085.00

    b. Cow-calf @ $8,950.00

    c. Sheep @ $1,024.00

    d. Feeder pigs @ $1,500.00

    e. Chicken feed @ $90.00

- Seeds purchased @ $30.00
- Chemicals for prairie hay (2-4-D) @ $239.00
- Machine hire (hay operation) @ $600.00

    NOTE: Form 1099 has been completed.

- Miscellaneous supplies purchased @ $9,400.00
- Veterinary fees @ $350.00
- Farm share of gasoline, fuel, oil @ $4,000.
- Farm share of taxes @ $600.00
- Farm share of insurance @ $800.00
- Farm share of utilities @ $1,200.00
- Hay hauling (custom hire) @ $800.00

    NOTE: Form 1096 has been completed.

- Farm magazines @ $65.00
- Farm Business Management program tuition @ $60.00
- *Oklahoma Farm Business Management Record Book*, pencils, papers and other business materials needed to run farm business @ $80.00

19XX depreciation

NOTE: Depreciation is on file in farm records.

- 1/2-ton truck @ $750.00
- 2-ton flat bed truck @ $1,000.00
- Tractor @ $500.00
- Tractor @ $750.00
- Hay baler @ $750.00
- Combine @ $2,450.00
- Miscellaneous equipment @ $2,000.00
- Breeding livestock @ $3,000.00

SCHEDULE F
(Form 1040)
Department of the Treasury
Internal Revenue Service (0)

Farm Income and Expenses

▶ **Attach to Form 1040, Form 1041, or Form 1065.**
▶ **See Instructions for Schedule F (Form 1040).**

OMB No. 1545-0074
1990
Attachment Sequence No. **14**

Name of proprietor

Social security number (SSN)

A Principal product. (Describe in one or two words your principal crop or activity for the current tax year.)

B Enter principal agricultural activity code (from page 2) ▶

C Accounting method
☐ Cash ☐ Accrual

D Employer ID number (Not SSN)

E Did you make an election in a prior year to include Commodity Credit Corporation loan proceeds as income in that year? ☐ Yes ☐ No

F Did you "materially participate" in the operation of this business during 1990? (If "No," see Instructions for limitations on losses.) ☐ Yes ☐ No

G Do you elect, or did you previously elect, to currently deduct certain preproductive period expenses? (See Instructions.) ☐ Does not apply ☐ Yes ☐ No

Part I Farm Income—Cash Method—Complete Parts I and II (Accrual method taxpayers complete Parts II and III, and line 11 of Part I.)

Do not include sales of livestock held for draft, breeding, sport, or dairy purposes; report these sales on Form 4797.

1 Sales of livestock and other items you bought for resale	1				
2 Cost or other basis of livestock and other items you bought for resale	2				
3 Subtract line 2 from line 1				3	
4 Sales of livestock, produce, grains, and other products you raised				4	
5a Total cooperative distributions (Form(s) 1099-PATR)	5a		5b Taxable amount	5b	
6a Agricultural program payments (see Instructions)	6a		6b Taxable amount	6b	
7 Commodity Credit Corporation (CCC) loans					
a CCC loans reported under election (see Instructions)				7a	
b CCC loans forfeited or repaid with certificates	7b		7c Taxable amount	7c	
8 Crop insurance proceeds and certain disaster payments (see Instructions)					
a Amount received in 1990	8a		8b Taxable amount	8b	
c If election to defer to 1991 is attached, check here ▶ ☐			8d Amount deferred from 1989	8d	
9 Custom hire (machine work) income				9	
10 Other income, including Federal and state gasoline or fuel tax credit or refund (see Instructions)				10	
11 Add amounts in the right column for lines 3 through 10. If accrual method taxpayer, enter the amount from page 2, line 51. This is your **gross income** ▶				11	

Part II Farm Expenses—Cash and Accrual Method (Do not include personal or living expenses such as taxes, insurance, repairs, etc., on your home.)

12 Breeding fees	12		24 Labor hired (less jobs credit)	24	
13 Chemicals	13		25 Pension and profit-sharing plans	25	
14 Conservation expenses (you must attach **Form 8645**)	14		26 Rent or lease (see Instructions): a Vehicles, machinery, and equip.	26a	
15 Custom hire (machine work)	15		b Other (land, animals, etc.)	26b	
16 Depreciation and section 179 expense deduction not claimed elsewhere (see Instructions)	16		27 Repairs and maintenance 28 Seeds and plants purchased 29 Storage and warehousing	27 28 29	
17 Employee benefit programs other than on line 25	17		30 Supplies purchased 31 Taxes	30 31	
18 Feed purchased	18		32 Utilities	32	
19 Fertilizers and lime	19		33 Veterinary fees and medicine	33	
20 Freight and trucking	20		34 Other expenses (specify):		
21 Gasoline, fuel, and oil	21		a	34a	
22 Insurance (other than health)	22		b	34b	
23 Interest:			c	34c	
a Mortgage (paid to banks, etc.)	23a		d	34d	
b Other	23b		e	34e	

35 Add amounts on lines 12 through 34e. These are your **total expenses** ▶	35	
36 **Net farm profit or (loss).** Subtract line 35 from line 11. If a profit, enter on Form 1040, line 19, and on Schedule SE, line 1. If a loss, you MUST go on to line 37. (Fiduciaries and partnerships, see Instructions.)	36	

37 If you have a loss, you MUST check the box that describes your investment in this activity (see Instructions).
If you checked 37a, enter the loss on Form 1040, line 19, and Schedule SE, line 1.
If you checked 37b, you MUST attach **Form 6198**.

37a ☐ All investment is at risk.
37b ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule F (Form 1040) 1990

ASSIGNMENT SHEET 2

INCOME TAX FORMS

IV

OBJECTIVE 7

Compute employer's annual tax return for agricultural employees using form 943.

NAME______________________________SCORE ____

INTRODUCTION

Every employer must file Form 943 if cash wages were paid to one or more employees who either received $150 or more in cash wages in a calendar year or who performed agricultural labor on 20 or more days during the year.

NOTE: Services performed by a child under 18 working for his or her parent is not employment for purposes of FICA or FUTA taxes. This is true even if the child is paid regular wages.

After a return is filed, the IRS will mail you the form needed for future use.

Form 943 must be filed on or before January 31 for the preceding year.

NOTE: If you have made deposits on this all year long, you may file on or before February 10. You also must prepare a W-2 for every employee to whom you paid cash wages subject to FICA tax and they must complete the Form W-4. Additional information may be found in IRS Publication 51, Circular A, *Agricultural Employer's Tax Guide.*

DIRECTIONS

Compute total FICA contributions on Form 943 using the information below.

- You have determined that two employees, Jamee Noell Reid and Gregory Ervin Pierce were paid net wages of $5,549.40 and $647.43, respectively, last year. You withheld $450.60 from Reid and $52.57 from Pierce for their FICA contributions last year. Reid's Social Security number is 000-00-0001 and Pierce's Social Security number is 000-00-0002.
- Your labor records show the following tax liability for each month:
    a. January – $76.60
    b. February – $76.60
    c. March – $76.60
    d. April – $76.60

e. May – $76.60

f. June – $129.67

g. July – $129.67

h. August – $76.60

i. September – $76.60

j. October – $76.60

k. November – $76.60

l. December – $76.60

- You deposited $500 on July 15 and $500 on January 15, 1989 in an authorized commercial bank.

Form **943**
Department of the Treasury
Internal Revenue Service

Employer's Annual Tax Return for Agricultural Employees

See Circular A for more information concerning agricultural employment tax returns.

OMB No. 1545-0035

1990

T	
FF	
FD	
FP	
I	
T	

Your name, address, employer identification number, and calendar year of return (If not correct, please change.) ▶

Name (as distinguished from trade name)

Calendar year

Trade name, if any

Employer identification number

Address and ZIP code

If address is different from prior return, check here ▶ ☐

If you do not have to file returns in the future, write "FINAL RETURN" here ▶

1a	**Number of agricultural employees employed in the pay period that includes March 12, 1990** ▶	1a	
b	**If you are a subsidiary corporation AND your parent corporation files a consolidated Form 1120, enter parent corporation's employer identification number (EIN)** ▶	1b	
2	**Taxable cash wages paid during the year** (see instructions on page 4)	2	
3	**Social security taxes** (multiply line 2 by 15.3%)	3	
4	**Adjustment of social security taxes** (attach statement—see instructions on page 4)	4	
5	**Social security taxes as adjusted**	5	
6	**Federal income tax withheld** (see instructions on page 4)	6	
7	**Total taxes** (add lines 5 and 6)	7	
8	**Advance earned income credit (EIC) payments**, if any (see instructions on page 4)	8	
9	**Net taxes** (subtract line 8 from line 7)	9	
10	**Total amount deposited for 1990**, including any overpayment from 1989, as shown in your records	10	
11	**Undeposited taxes due** (subtract line 10 from line 9—this should be less than $500). Pay to Internal Revenue Service ▶	11	

12 **If line 10 is more than line 9, enter overpayment here ▶ $** and check if to be ☐ Applied to next return, or ☐ Refunded

Check if you are a first-time 3-banking-day depositor (see deposit rules on page 4) ▶ ☐

Record of Federal Tax Liability

(See deposit rules on page 4.)

If your tax liability for any month in 1990 is $3,000 or more, do not use the schedule below. Instead, complete and attach Form 943A, Agricultural Employer's Record of Federal Tax Liability.

Deposit period ending		**Tax liability for month**
A January 31	A	
B February 28	B	
C March 31	C	
D April 30	D	
E May 31	E	
F June 30	F	
G July 31	G	
H August 31	H	
I September 30	I	
J October 31	J	
K November 30	K	
L December 31	L	
M Total liability for year (add lines A through L)	M	

Instructions

If your taxes for the year (line 9) are less than $500, you do not have to complete this record. You may pay the taxes with Form 943 or deposit them by January 31, 1991.

If your taxes for every month are less than $3,000, show your tax liability next to the month. If your tax liability for any month is $3,000 or more, do not use this schedule. Instead, complete and attach Form 943A. See rules (4) and (5) under "Deposit Rules" on page 4.

The total tax liability for the year (line M) should equal net taxes (line 9).

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Date ▶ Signature ▶ Title (Owner, etc.) ▶

Please file this form with your Internal Revenue Service Center (see instructions on "Where To File").

For Paperwork Reduction Act Notice, see page 2.

ASSIGNMENT SHEET 3

INCOME TAX FORMS

IV

OBJECTIVE 8

Compute social security self-employment tax.

NAME______________________________SCORE ____

INTRODUCTION

Schedule SE provides the Social Security Administration with the necessary information on your income needed for computing your Social Security benefits.

In computing your tax, exclude any item of income or expense that is not included in the computation of net earnings from farming.

NOTE: If you farmed and had one or more other trades or businesses, your net earnings from self-employment are the combined net earnings from farming and all other trades or businesses. If you are involved in a partnership. No share can be allocated to your spouse, even though the income may be, under state law, community income.

DIRECTIONS

Net farm profit is determined from Schedule F, Form 1040, in Line 58 and is $14,781.20. Compute Schedule SE, Form 1040, Social Security Self-employment tax on the form provided, based on the previously given Schedule F, net profit.

SCHEDULE SE
(Form 1040)
Department of the Treasury
Internal Revenue Service (0)

Social Security Self-Employment Tax

▶ See Instructions for Schedule SE (Form 1040).
▶ Attach to Form 1040.

OMB No. 1545-0074
1990
Attachment Sequence No. 17

Name of person with **self-employment** income (as shown on Form 1040)	Social security number of person with **self-employment** income ▶

Who Must File Schedule SE

You must file Schedule SE if:

- Your net earnings from self-employment were $400 or more; **OR**
- You were an employee of an electing church or church-controlled organization that paid you wages (church employee income) of $100 or more;

AND

- Your wages (subject to social security or railroad retirement tax) were less than $51,300.

Exception: If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner, AND you filed **Form 4361** and received IRS approval not to be taxed on those earnings, DO NOT file Schedule SE. Instead, write "Exempt–Form 4361" on Form 1040, line 48.

For more information about Schedule SE, see the Instructions.

Note: *Most people can use the short Schedule SE on this page. But, you may have to use the longer Schedule SE on the back.*

Who MUST Use the Long Schedule SE (Section B)

You must use Section B if ANY of the following apply:

- You elect the "optional method" to figure your self-employment tax (see Section B, Part II, and the Instructions);
- You are a minister, member of a religious order, or Christian Science practitioner and you received IRS approval (from **Form 4361**) not to be taxed on your earnings from these sources, but you owe self-employment tax on other earnings;
- You had church employee income of $100 or more that was reported to you on Form W-2;
- You had tip income that is subject to social security tax, but you did not report those tips to your employer; OR
- You were a government employee with wages subject ONLY to the 1.45% Medicare part of the social security tax (Medicare qualified government wages) AND the total of **all** of your wages (subject to social security, railroad retirement, or the 1.45% Medicare tax) plus **all** your earnings subject to self-employment tax is **more** than $51,300.

Section A—Short Schedule SE (Read above to see if you must use the long Schedule SE on the back (Section B).)

1	Net farm profit or (loss) from Schedule F (Form 1040), line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a	1		
2	Net profit or (loss) from Schedule C (Form 1040), line 29, and Schedule K-1 (Form 1065), line 15a (other than farming). See Instructions for other income to report.	2		
3	Combine lines 1 and 2. Enter the result	3		
4	Multiply line 3 by .9235. Enter the result. If the result is less than $400, **do not** file this schedule; you **do not** owe self-employment tax . . . . . ▶	4		
5	Maximum amount of combined wages and self-employment earnings subject to social security or railroad retirement (tier 1) tax for 1990	5	$51,300	00
6	Total social security wages and tips (from Form(s) W-2) and railroad retirement compensation (tier 1). **Do not** include Medicare qualified government wages on this line	6		
7	Subtract line 6 from line 5. Enter the result. If the result is zero or less, **do not** file this schedule; you **do not** owe self-employment tax . . . . . ▶	7		
8	Enter the **smaller** of line 4 or line 7	8		
9	Rate of tax	9	×.153	
10	**Self-employment tax.** If line 8 is $51,300, enter $7,848.90. Otherwise, multiply the amount on line 8 by the decimal amount on line 9 and enter the result. Also enter this amount on Form 1040, line 48 . **Note:** *Also enter one-half of this amount on Form 1040, line 25.*	10		

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule SE (Form 1040) 1990

OBJECTIVE 9

Compute fuel tax credit on form 4136.

NAME______________________________SCORE ____

INTRODUCTION

One of the steps in preparing a farm income tax return is to figure the fuel tax credit.

DIRECTIONS

Use the information below to complete form 4136, Computation of Credit for Federal Tax on Fuels, for your farm

Your total fuel purchases (both gasoline and diesel) were 3,800 gallons. Of this, 1200 gallons were gasoline and 2,600 gallons were diesel. Of the gasoline, 200 gallons were used on the farm (off-road) and 2400 gallons of the diesel were used on the farm (off-road).

Form **4136**
Department of the Treasury
Internal Revenue Service

Credit for Federal Tax on Fuels

(And Credit for Purchase of Diesel-Powered Highway Vehicles)
▶ Attach this form to your income tax return.

OMB No 1545-0162
1990
Attachment Sequence No **23**

Name (as shown on your income tax return)	**Social security or employer identification number**

Part I Diesel-Powered Highway Vehicle Credit

	(a) Number of Vehicles	(b) Rate	(c) Credit
1 Diesel-powered cars		$102.00	$
2 Diesel-powered light trucks and vans		198.00	
3 Total diesel-powered highway vehicle credit ▶			$

Part II Fuel Tax Credit

Type of Fuel	(a) Type of Use (See table below.)	(b) Number of Gallons	(c) Rate	(d) Credit
1 Gasoline			.091/.09(.141*)	$
2 Gasohol			.031/.03(.087*)	
3 Diesel fuel			.151/.15(.201*)	
4 Special motor fuels			.091/.09(.141*)	
5 Gasoline used in aviation			.121/.12(.151*)	
6 Aviation fuel (other than gasoline)			.141/.14(.176*)	
7 Other (See instructions.)				
8 Total fuel tax credit ▶				$

*This rate is only for fuel purchased and used after November 30, 1990.

Part III Total Income Tax Credit

Total income tax credit claimed (add line 3, column (c) in Part I and line 8, column (d) in Part II). Enter here and on Form 1040, line 60; Form 1120, line 32g; Form 1120-A, line 28g; Form 1120S, line 23c; Form 1041, line 24g; or the proper line of other returns ▶ $

Type of Use Table

This table lists the uses for which you may claim a credit for fuels. See **Pub. 378,** Fuel Tax Credits and Refunds, for definitions of these uses.

a On a farm for farming purposes
b Off-highway business use
c Export
d Commercial fishing vessel
e Intercity or local bus
f School bus
g Diesel fuel used in boats, used as heating oil, or used for nonbusiness off-highway use
h Diesel fuel used in a qualified local bus
i Supplies for aircraft
j Commercial aviation
k Helicopters
m Gasoline used to make gasohol

Paperwork Reduction Act Notice.—We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us this information. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	6 hrs., 56 min.
Learning about the law or the form	6 min.
Preparing and sending the form to IRS	13 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the **IRS** and the **Office of Management and Budget** at the addresses listed in the instructions of the tax return with which this form is filed.

General Instructions

Purpose of Form.—Form 4136 is used by individuals, estates, trusts, or corporations to claim credit for Federal excise tax on fuels and to claim the credit for diesel-powered highway vehicles. (Partnerships cannot file this form; instead, they must attach a statement to **Form 1065,** U.S. Partnership Return of Income, showing the number of gallons of fuel allocated to each partner, the types of use, and the applicable tax rates.)

Requirements.—In order to claim a credit you must: (1) use the fuel for a purpose listed in the Type of Use Table; (2) buy the fuel at a price that included the tax; and (3) not have requested a refund of the tax.

Including Fuel Tax Credit in Income.—The amount of the credit on line 8, Part II, must be included in your gross income if you claimed the taxes paid as an expense deduction that reduced your income tax liability.

Additional Information on Credits.—See Pub. 378 for definitions and rules relating to the Federal excise tax and for information on claiming a quarterly refund of tax rather than waiting until you file your income tax return to claim a credit. **Pub. 225,** Farmer's Tax Guide; **Pub. 595,** Tax Guide for Commercial Fishermen; and **Pub. 510,** Excise Taxes for 1991—all contain information on the credit for fuels. They are available from many IRS offices, or you may call 1-800-829-FORM (3676) to order any publications needed.

Specific Instructions

Part I

Diesel-Powered Highway Vehicle.—If you bought a diesel-powered highway vehicle during the year for a use other than resale and you are the first purchaser, you may claim a one-time credit of **$102** for an automobile and **$198** for a light truck or van. The vehicle must be a diesel-powered highway vehicle that has at least four wheels, has a gross vehicle weight rating of 10,000 pounds or less, and is registered for highway use in the U.S. under the laws of any state. If you claim the credit for diesel-powered vehicles, for depreciation purposes you must reduce the basis of the vehicle by the credit claimed.

Part II

Amount of Fuel Credit.—The rate of tax imposed on fuels changed during 1990. Before September 1, 1990, the rate of tax included the Leaking Underground Storage Tank (LUST) tax. After August 31, 1990, and before December 1, 1990, the rate of tax does not include the LUST tax. After November 30, 1990, the rate of tax on fuels was increased and the LUST tax was reimposed.

ASSIGNMENT SHEET 5

INCOME TAX FORMS

IV

OBJECTIVE 10

Determine capital gains and losses on Form 4797 and Schedule D.

NAME________________________________SCORE _______

INTRODUCTION

Gains and losses from the sale, exchange, or involuntary conversion of assets used in a trade or business are reported on Form 4797.

Capital gains and losses are reported on Schedule D.

NOTE: Property to be reported on this Schedule are gains and losses on stocks, bonds, and similar investments and gains on personal assets such as a home or jewelry. Losses on personal assets are not reported on this schedule.

DIRECTIONS

PART I

Use the following information to complete Form 4797, Parts I, II, and II, for Jerry Brown's Dairy Farm.

NOTE: Jerry Brown's Dairy Farm identifying number is 000-00-0008.

- Sold five raised dairy cows January 9, 1988, @ $525.00 each. there were no sale expenses. The cows entered the dairy herd during 1982.
- Sold dairy cow #21 April 13, 1988, @ $446.00. There was no sale expense. Cow #21 was purchased January 6, 1988, at a cost of $800.00 and no depreciation has been taken.
- Sold J.D. tractor January 7, 1988, for $11,500.00. There was no sale expense. The tractor was purchased June 25, 1979, for $10,250.00 and $10,250.00 in depreciation has been taken.
- Sold mower February 19, 1988, for $150.00. there was no sale expense. the mower was purchased April 16, 1980, for $290.00 and $290.00 in depreciation has been taken.
- On October 23, 1988, dairy cow #41 was sold for $516.00 and expenses for the sale were $14.00. Cow #41 was purchased February 17, 1982, at a cost of $395.00 and $395.00 in depreciation has been taken.
- On October 1, 1988, dairy cow #52 was sold for $699.00 and expenses for the sale were $14.00. Cow #52 was purchased May 11, 1985, for $850.00 and $214.00 in depreciation has been taken.

- There were no gains or losses to report from Form 4684 for involuntary conversions from casualty and theft.

PART II

Use the figures computed on Form 4797 and the following additional information for Jerry Brown's Dairy Farm to complete Schedule D, Parts I, II, and III, to determine capital gains or losses.

- Sold 25 shares of H.T. Corporation on March 5, 1988, for $430.00. There were sale expenses of $50.00 the 25 shares were purchased December 1, 1987 for $430.00
- Sold 40 shares of H.T. Corporation on July 1, 1988, for $1,050.00. There were sale expenses of $50.00. the 40 shares were purchased February 1, 1974, for $225.00.
- There were no other gains or losses or capital loss carryovers from previous years.

Form **4797**

Department of the Treasury
Internal Revenue Service

Sales of Business Property

(Also, Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F)

▶ Attach to your tax return. ▶ See separate instructions.

OMB No. 1545-0184

1990

Attachment Sequence No. 27

Name(s) shown on return

Identifying number

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty and Theft—Property Held More Than 1 Year

1 Enter here the gross proceeds from the sale or exchange of real estate reported to you for 1990 on Form(s) 1099-S (or a substitute statement) that you will be including on line 2, 10, or 20 1

(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) LOSS ((f) minus the sum of (d) and (e))	(h) GAIN ((d) plus (e) minus (f))
2							

3 Gain, if any, from Form 4684, Section B, line 21 . . . .

4 Section 1231 gain from installment sales from Form 6252, line 22 or 30 . . . .

5 Gain, if any, from line 32, from other than casualty and theft . . . .

6 Add lines 2 through 5 in columns (g) and (h) . . . . ( )

7 Combine columns (g) and (h) of line 6. Enter gain or (loss) here, and on the appropriate line as follows . . . .

Partnerships.—Enter the gain or (loss) on Form 1065, Schedule K, line 6. Skip lines 8, 9, 11, and 12 below.

S corporations.—Report the gain or (loss) following the instructions for Form 1120S, Schedule K, lines 5 and 6. Skip lines 8, 9, 11, and 12 below, unless line 7 is a gain and the S corporation is subject to the capital gains tax.

All others.—If line 7 is zero or a loss, enter the amount on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain as a long-term capital gain on Schedule D and skip lines 8, 9, and 12 below.

8 Nonrecaptured net section 1231 losses from prior years (see Instructions) . . . .

9 Subtract line 8 from line 7. If zero or less, enter -0-. Also enter on the appropriate line as follows (see instructions) . . . . . .

S corporations.—Enter this amount (if greater than zero) on Form 1120S, Schedule D, line 7, and skip lines 11 and 12 below.

All others.—If line 9 is zero, enter the amount from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below, and enter the amount from line 9 as a long-term capital gain on Schedule D.

Part II Ordinary Gains and Losses

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

11 Loss, if any, from line 7 . . . .

12 Gain, if any, from line 7, or amount from line 8 if applicable . . . .

13 Gain, if any, from line 31 . . . .

14 Net gain or (loss) from Form 4684, Section B, lines 13 and 20a . . . .

15 Ordinary gain from installment sales from Form 6252, line 21 or 29 . . . .

16 Recapture of section 179 deduction for partners and S corporation shareholders from property dispositions by partnerships and S corporations (see Instructions) . . . .

17 Add lines 10 through 16 in columns (g) and (h) . . . . ( )

18 Combine columns (g) and (h) of line 17. Enter gain or (loss) here, and on the appropriate line as follows: . . . .

a For all except individual returns: Enter the gain or (loss) from line 18 on the return being filed. . . . .

b For individual returns:

(1) If the loss on line 11 includes a loss from Form 4684, Section B, Part II, column (b)(ii), enter that part of the loss here and on line 21 of Schedule A (Form 1040). Identify as from "Form 4797, line 18b(1)". See instructions . . . .

(2) Redetermine the gain or (loss) on line 18, excluding the loss, if any, on line 18b(1). Enter here and on Form 1040, line 15

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H831 1040-35

BEST COPY AVAILABLE

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255

	Date acquired (mo., day, yr.)	Date sold (mo., day, yr.)
19 Description of section 1245, 1250, 1252, 1254, and 1255 property:		
A		
B		
C		
D		

Relate lines 19A through 19D to these columns ▶	Property A	Property B	Property C	Property D
20 Gross sales price (**Note:** *See line 1 before completing.*)				
21 Cost or other basis plus expense of sale				
22 Depreciation (or depletion) allowed or allowable				
23 Adjusted basis. Subtract line 22 from line 21				
24 Total gain. Subtract line 23 from line 20				
25 **If section 1245 property:**				
a Depreciation allowed or allowable from line 22				
b Enter the **smaller** of line 24 or 25a				
26 **If section 1250 property:** If straight line depreciation was used, enter zero on line 26g unless you are a corporation subject to section 291.				
a Additional depreciation after 12/31/75 (see Instructions)				
b Applicable percentage multiplied by the **smaller** of line 24 or line 26a (see Instructions)				
c Subtract line 26a from line 24. If line 24 is not more than line 26a, skip lines 26d and 26e				
d Additional depreciation after 12/31/69 and before 1/1/76				
e Applicable percentage multiplied by the **smaller** of line 26c or 26d (see Instructions)				
f Section 291 amount (corporations only)				
g Add lines 26b, 26e, and 26f				
27 **If section 1252 property:** Skip this section if you did not dispose of farmland or if you are a partnership.				
a Soil, water, and land clearing expenses				
b Line 27a multiplied by applicable percentage (see Instructions)				
c Enter the **smaller** of line 24 or 27b				
28 **If section 1254 property:**				
a Intangible drilling and development costs, expenditures for development of mines and other natural deposits, and mining exploration costs (see Instructions)				
b Enter the **smaller** of line 24 or 28a				
29 **If section 1255 property:**				
a Applicable percentage of payments excluded from income under section 126 (see Instructions)				
b Enter the **smaller** of line 24 or 29a				

Summary of Part III Gains (Complete property columns A through D, through line 29b before going to line 30.)

30 Total gains for all properties. Add columns A through D, line 24	
31 Add columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13. (See the Instructions for Part IV if this is an installment sale.)	
32 Subtract line 31 from line 30. Enter the portion from casualty and theft on Form 4684, Section B, line 15. Enter the portion from other than casualty and theft on Form 4797, line 5	

Part IV Election Not to Use the Installment Method (Complete this part only if you elect out of the installment method and report a note or other obligation at less than full face value.)

33 Check here if you elect out of the installment method ▶ ☐

34 Enter the face amount of the note or other obligation ▶ $

35 Enter the percentage of valuation of the note or other obligation ▶ %

Part V Recapture Amounts Under Sections 179 and 280F When Business Use Drops to 50% or Less (See Instructions for Part V.)

	(a) Section 179	(b) Section 280F
36 Section 179 expense deduction or section 280F recovery deductions		
37 Depreciation or recovery deductions (see Instructions)		
38 Recapture amount. Subtract line 37 from line 36. (See Instructions for where to report.)		

H831 1040-35A PRINTED IN U.S.A.

ASSIGNMENT SHEET 5 - Income Tax
IV - 42

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

(And Reconciliation of Forms 1099-B for Bartering Transactions)

▶ Attach to Form 1040. ▶ See Instructions for Schedule D (Form 1040).
▶ For more space to list transactions for lines 2a and 9a, get Schedule D-1 (Form 1040).

OMB No. 1545-0074
1990
Attachment Sequence No. **12A**

Name(s) shown on Form 1040	Your social security number

1 Enter the total sales of stocks, bonds, other securities, and real estate transactions reported to you for 1990 on Forms 1099-B and 1099-S (or on substitute statements). If this total is not the same as the total of lines 2c and 9c, column (d), attach a statement explaining the difference. (Do not include on this line amounts from Form 1099-S if you reported them on another form or schedule.) **See Instructions for line 1** . . . . | 1 |

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see instructions) –	(e) Cost or other basis (see instructions) +	(f) LOSS If (e) is more than (d), subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, Other Securities, and Real Estate. Include Form 1099-B and 1099-S Transactions. See Instructions.						
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1)						
2c Total of All Sales Price Amounts. Add column (d) of lines 2a and 2b . . . . ▶ 2c						
2d Other Transactions (Do NOT include real estate transactions from Forms 1099-S. Report them on line 2a.)						

3	Short-term gain from sale or exchange of your home from Form 2119, line 10 or 14c .	3		
4	Short-term gain from installment sales from Form 6252, line 22 or 30	4		
5	Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries -(+)	5		
6	Short-term capital loss carryover from 1989 Schedule D, line 29 . . . . . . +	6		
7	Add lines 2a, 2b, 2d, and 3 through 6, in columns (f) and (g)	7	( )	
8	**Net short-term gain or (loss).** Combine columns (f) and (g) of line 7	8		

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a)	(b)	(c)	(d)	(e)	(f)	(g)
9a Stocks, Bonds, Other Securities, and Real Estate. Include Form 1099-B and 1099-S Transactions. See Instructions.						
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1)						
9c Total of All Sales Price Amounts. Add column (d) of lines 9a and 9b . . . ▶ 9c						
9d Other Transactions (Do NOT include real estate transactions from Forms 1099-S. Report them on line 9a.)						

10	Long-term gain from sale or exchange of your home from Form 2119, line 10 or 14c .	10		
11	Long-term gain from installment sales from Form 6252, line 22 or 30 .	11		
12	Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries -(+)	12		
13	Capital gain distributions . . . . -	13		
14	Gain from Form 4797, line 7 or 9	14		
15	Long-term capital loss carryover from 1989 Schedule D, line 36 . . . . . . +	15		
16	Add lines 9a, 9b, 9d, and 10 through 15, in columns (f) and (g) . .	16	( )	
17	**Net long-term gain or (loss).** Combine columns (f) and (g) of line 16	17		

For Paperwork Reduction Act Notice, see Form 1040 Instructions. PRINTED IN U.S.A. **Schedule D (Form 1040) 1990**
H831 1040-7

Schedule D (Form 1040) 1990 Attachment Sequence No. **12A** Page **2**

Name(s) shown on Form 1040 | Your social security number

Part III Summary of Parts I and II

18 Combine lines 8 and 17, and enter the net gain or (loss) here. If the result is a gain, **stop here** and also enter the gain on Form 1040, line 13 18

19 If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of:

a The (loss) on line 18; **or**

b ($3,000) or, if married filing a separate return, ($1,500) 19 ( )

Note: *When figuring whether line 19a or 19b is* ***smaller****, treat both numbers as if they were positive.*

Go on to Part IV if the loss on line 18 is more than $3,000 ($1,500, if married filing a separate return), OR if taxable income on Form 1040, line 37, is zero.

Part IV Capital Loss Carryovers from 1990 to 1991

Section A.—Carryover Limit

20 Enter taxable income from Form 1040, line 37. **(If Form 1040, line 37 is zero, see Instructions for amount to enter.)** 20

Note: *For lines 21 through 36, enter all amounts as positive numbers.*

21 Enter the loss on line 19 21

22 Enter the amount on Form 1040, line 36 22

23 Combine lines 20, 21, and 22. If zero or less, enter -0- 23

24 **Carryover Limit.** Enter the **smaller** of line 21 or line 23 24

Section B.—Short-Term Capital Loss Carryover to 1991

(Complete this section only if there is a loss on both line 8 and line 19. Otherwise, go on to Section C.)

25 Enter the loss on line 8 25

26 Enter the gain, if any, on line 17 26

27 Enter the amount on line 24 27

28 Add lines 26 and 27 28

29 **Short-term capital loss carryover to 1991.** Subtract line 28 from line 25. If zero or less, enter -0- 29

Section C.—Long-Term Capital Loss Carryover to 1991

(Complete this section only if there is a loss on both line 17 and line 19.)

30 Enter the loss on line 17 30

31 Enter the gain, if any, on line 8 31

32 Enter the amount on line 24 32

33 Enter the amount, if any, on line 25 33

34 Subtract line 33 from line 32. If zero or less, enter -0- 34

35 Add lines 31 and 34 35

36 **Long-term capital loss carryover to 1991.** Subtract line 35 from line 30. If zero or less, enter -0- 36

Part V Election Not to Use the Installment Method (Complete this part only if you elect out of the installment method and report a note or other obligation at less than full face value.)

37 Check here if you elect out of the installment method ▶ ☐

38 Enter the face amount of the note or other obligation ▶

39 Enter the percentage of valuation of the note or other obligation ▶

Part VI Reconciliation of Forms 1099-B for Bartering Transactions

(Complete this part if you received one or more Forms 1099-B or substitute statements reporting bartering income.)

		Amount of bartering income from Form 1099-B or substitute statement reported on form or schedule
40	Form 1040, line 22	40
41	Schedule C (Form 1040)	41
42	Schedule D (Form 1040)	42
43	Schedule E (Form 1040)	43
44	Schedule F (Form 1040)	44
45	Other form or schedule (identify) (if nontaxable, indicate reason—attach additional sheets if necessary):	45
46	Total (add lines 40 through 45)	46

Note: *The amount on line 46 should be the same as the total bartering income on all Forms 1099-B and substitute statements received for bartering transactions.*

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ASSIGNMENT SHEET 5 - Income Tax
IV - 44

OBJECTIVE 11

Complete an information return on Form 1099-MISC.

NAME__________________________________ SCORE _______

INTRODUCTION

Some payments require that information returns be filed with the I.R.S. and a copy sent to the recipient.

DIRECTIONS

Fill in the 1099-MISC according to the given information:

- Payment of $600 was made for custom work
- You are the payer
- Recipient information:

  Jan Smith

  Rt. 1 Box 99

  Somewhere, OK 74000

- Jan's social security number is 000-00-0001

☐ VOID ☐ CORRECTED

PAYER'S name, street address, city, state, and ZIP code	1 Rents $	OMB No. 1545-0115 **1990** Statement for Recipients of	**Miscellaneous Income**
	2 Royalties $		
	3 Prizes, awards, etc. $		
PAYER'S Federal identification number / RECIPIENT'S identification number	4 Federal income tax withheld $	5 Fishing boat proceeds $	
RECIPIENT'S name	6 Medical and health care payments $	7 Nonemployee compensation $	
Street address	8 Substitute payments in lieu of dividends or interest $	9 Payer made direct sales of $5,000 or more of consumer products to a buyer (recipient) for resale ▶ ☐	**Copy 1 For State Tax Department**
City, state, and ZIP code	10 Crop insurance proceeds $	11 State income tax withheld $	
Account number (optional)	12 State/Payer's state number		

Form **1099-MISC** Department of the Treasury - Internal Revenue Service

☐ VOID ☐ CORRECTED

PAYER'S name, street address, city, state, and ZIP code	1 Rents $	OMB No. 1545-0115 **1990** Statement for Recipients of	**Miscellaneous Income**
	2 Royalties $		
	3 Prizes, awards, etc. $		
PAYER'S Federal identification number / RECIPIENT'S identification number	4 Federal income tax withheld $	5 Fishing boat proceeds $	
RECIPIENT'S name	6 Medical and health care payments $	7 Nonemployee compensation $	
Street address	8 Substitute payments in lieu of dividends or interest $	9 Payer made direct sales of $5,000 or more of consumer products to a buyer (recipient) for resale ▶ ☐	**Copy 1 For State Tax Department**
City, state, and ZIP code	10 Crop insurance proceeds $	11 State income tax withheld $	
Account number (optional)	12 State/Payer's state number		

Form **1099-MISC** Department of the Treasury - Internal Revenue Service

OBJECTIVE 6	See page 49 SCHEDULE F – FARM INCOME AND EXPENSES
OBJECTIVE 7	See page 51 FORM 943 – EMPLOYER'S ANNUAL TAX RETURN FOR AGRICULTURAL EMPLOYEES
OBJECTIVE 8	See page 53 SCHEDULE SE – SOCIAL SECURITY SELF-EMPLOYMENT TAX
OBJECTIVE 9	See page 55 ANSWER TO #4 FORM 4136 – COMPUTATION OF CREDIT FOR FEDERAL TAX ON FUELS
OBJECTIVE 10	See pages 57-60 FORM 4797 – SALES OF BUSINESS PROPERTY SCHEDULE D – CAPITAL GAINS AND LOSSES
OBJECTIVE 11	See page 61 FORM 1099-MISC

SCHEDULE F
(Form 1040)

Department of the Treasury
Internal Revenue Service (0)

Farm Income and Expenses

► Attach to Form 1040, Form 1041, or Form 1065.

► See Instructions for Schedule F (Form 1040).

OMB No. 1545-0074

1990

Attachment Sequence No. **14**

Name of proprietor

Social security number (SSN)

A Principal product (Describe in one or two words your principal crop or activity for the current tax year.)

B Enter principal agricultural activity code (from page 2) ► 2 6 0

C Accounting method ☒ Cash ☐ Accrual

D Employer ID number (Not SSN)

E Did you make an election in a prior year to include Commodity Credit Corporation loan proceeds as income in that year? ☒ Yes ☐ No

F Did you "materially participate" in the operation of this business during 1990? (If "No," see Instructions for limitations on losses.) ☒ Yes ☐ No

G Do you elect, or did you previously elect, to currently deduct certain preproductive period expenses? (See Instructions.) ☐ Does not apply ☐ Yes ☒ No

Part I Farm Income—Cash Method—Complete Parts I and II (Accrual method taxpayers complete Parts II and III, and line 11 of Part I.)

Do not include sales of livestock held for draft, breeding, sport, or dairy purposes; report these sales on Form 4797.

1	Sales of livestock and other items you bought for resale	1	28000		
2	Cost or other basis of livestock and other items you bought for resale	2	22,500		
3	Subtract line 2 from line 1			3	5,500
4	Sales of livestock, produce, grains, and other products you raised			4	73,414
5a	Total cooperative distributions (Form(s) 1099-PATR)	5a		5b Taxable amount 5b	
6a	Agricultural program payments (see Instructions)	6a		6b Taxable amount 6b	
7	Commodity Credit Corporation (CCC) loans:				
a	CCC loans reported under election (see Instructions)			7a	
b	CCC loans forfeited or repaid with certificates	7b		7c Taxable amount 7c	
8	Crop insurance proceeds and certain disaster payments (see Instructions):				
a	Amount received in 1990	8a		8b Taxable amount 8b	
c	If election to defer to 1991 is attached, check here ► ☐		8d Amount deferred from 1989	8d	
9	Custom hire (machine work) income			9	15,000
10	Other income, including Federal and state gasoline or fuel tax credit or refund (see Instructions)			10	54
11	Add amounts in the right column for lines 3 through 10. If accrual method taxpayer, enter the amount from page 2, line 51. This is your **gross income** ►			11	93,968

Part II Farm Expenses—Cash and Accrual Method (Do not include personal or living expenses such as taxes, insurance, repairs, etc., on your home.)

12	Breeding fees	12		24	Labor hired (less jobs credit)	24	4,000
13	Chemicals	13	239	25	Pension and profit-sharing plans	25	
14	Conservation expenses (you must attach **Form 8645**)	14		26	Rent or lease (see Instructions):		
				a	Vehicles, machinery, and equip.	26a	
15	Custom hire (machine work)	15	1,400	b	Other (land, animals, etc.)	26b	1,500
16	Depreciation and section 179 expense deduction not claimed elsewhere (see Instructions)	16	11,200	27	Repairs and maintenance	27	10,489
				28	Seeds and plants purchased	28	30
				29	Storage and warehousing	29	
17	Employee benefit programs other than on line 25	17		30	Supplies purchased	30	9,400
				31	Taxes	31	600
18	Feed purchased	18	20,649	32	Utilities	32	1,200
19	Fertilizers and lime	19		33	Veterinary fees and medicine	33	350
20	Freight and trucking	20		34	Other expenses (specify):		
21	Gasoline, fuel, and oil	21	4,000	a	Subscriptions	34a	65
22	Insurance (other than health)	22	800	b	FBM Class	34b	60
23	Interest:			c	Office Supplies	34c	80
a	Mortgage (paid to banks, etc.)	23a	9,000	d		34d	
b	Other	23b	4,125	e		34e	

35	Add amounts on lines 12 through 34e. These are your **total expenses** ►	35	79,187
36	**Net farm profit or (loss).** Subtract line 35 from line 11. If a profit, enter on Form 1040, line 19, and on Schedule SE, line 1. If a loss, you MUST go on to line 37. (Fiduciaries and partnerships, see Instructions.)	36	14,781

37 If you have a loss, you MUST check the box that describes your investment in this activity (see Instructions).
If you checked 37a, enter the loss on Form 1040, line 19, and Schedule SE, line 1.
If you checked 37b, you MUST attach **Form 6198.**

37a ☒ All investment is at risk.
37b ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule F (Form 1040) 1990

Form **943**
Department of the Treasury
Internal Revenue Service

Employer's Annual Tax Return for Agricultural Employees

See Circular A for more information concerning agricultural employment tax returns.

OMB No. 1545-0035

1990

T	
FF	
FD	
FP	
I	
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Your name, address, employer identification number and calendar year of return (If not correct, please change.) ▶

Name (as distinguished from trade name)
Calendar year
Trade name, if any
Employer identification number
Address and ZIP code

If address is different from prior return, check here ▶ ☐

If you do not have to file returns in the future, write "FINAL RETURN" here ▶

1a	Number of agricultural employees employed in the pay period that includes March 12, 1990 ▶	**1a**		
b	If you are a subsidiary corporation AND your parent corporation files a consolidated Form 1120, enter parent corporation's employer identification number (EIN) ▶	**1b**		
2	Taxable cash wages paid during the year (see instructions on page 4)	2	6,700	
3	Social security taxes (multiply line 2 by 15.3%)	3	1,025	10
4	Adjustment of social security taxes (attach statement—see instructions on page 4)	4	—	
5	Social security taxes as adjusted	5	1,025	10
6	Federal income tax withheld (see instructions on page 4)	6	-	
7	Total taxes (add lines 5 and 6)	7	1,025	10
8	Advance earned income credit (EIC) payments, if any (see instructions on page 4)	8	—	
9	Net taxes (subtract line 8 from line 7)	9	1,025	10
10	Total amount deposited for 1990, including any overpayment from 1989, as shown in your records	10	1,000	00
11	Undeposited taxes due (subtract line 10 from line 9—this should be less than $500). Pay to Internal Revenue Service ▶	11	25	10

12 If line 10 is more than line 9, enter overpayment here ▶ $ and check if to be: ☐ Applied to next return, or ☐ Refunded

Check if you are a first-time 3-banking-day depositor (see deposit rules on page 4) ▶ ☐

Record of Federal Tax Liability

(See deposit rules on page 4.)

If your tax liability for any month in 1990 is $3,000 or more, do not use the schedule below. Instead, complete and attach **Form 943A,** Agricultural Employer's Record of Federal Tax Liability.

Deposit period ending		**Tax liability for month**
A January 31	A	76.60
B February 28	B	76.60
C March 31	C	76.60
D April 30	D	76.60
E May 31	E	76.60
F June 30	F	129.67
G July 31	G	129.67
H August 31	H	76.60
I September 30	I	76.60
J October 31	J	76.60
K November 30	K	76.60
L December 31	L	76.60
M Total liability for year (add lines A through L)	M	1025.10

Instructions

If your taxes for the year (line 9) are less than $500, you do not have to complete this record. You may pay the taxes with Form 943 or deposit them by January 31, 1991.

If your taxes for every month are less than $3,000, show your tax liability next to the month. If your tax liability for any month is $3,000 or more, do not use this schedule. Instead, complete and attach Form 943A. See rules (4) and (5) under "Deposit Rules" on page 4.

The total tax liability for the year (line M) should equal net taxes (line 9).

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Date ▶ **Signature ▶** **Title (Owner, etc.) ▶**

Please file this form with your Internal Revenue Service Center (see instructions on "Where To File").

For Paperwork Reduction Act Notice, see page 2.

Form **943** (1990)

SCHEDULE SE **(Form 1040)** Department of the Treasury Internal Revenue Service (0)	**Social Security Self-Employment Tax** ▶ **See Instructions for Schedule SE (Form 1040).** ▶ **Attach to Form 1040.**	OMB No. 1545-0074 **1990** Attachment Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040)	Social security number of person with **self-employment** income ▶	

Who Must File Schedule SE

You must file Schedule SE if:

- Your net earnings from self-employment were $400 or more; **OR**
- You were an employee of an electing church or church-controlled organization that paid you wages (church employee income) of $100 or more;

AND

- Your wages (subject to social security or railroad retirement tax) were less than $51,300.

Exception: If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner, AND you filed **Form 4361** and received IRS approval not to be taxed on those earnings, DO NOT file Schedule SE. Instead, write "Exempt–Form 4361" on Form 1040, line 48.

For more information about Schedule SE, see the Instructions.

Note: *Most people can use the short Schedule SE on this page. But, you may have to use the longer Schedule SE on the back.*

Who MUST Use the Long Schedule SE (Section B)

You must use Section B if ANY of the following apply:

- You elect the "optional method" to figure your self-employment tax (see Section B, Part II, and the Instructions);
- You are a minister, member of a religious order, or Christian Science practitioner and you received IRS approval (from **Form 4361**) not to be taxed on your earnings from these sources, but you owe self-employment tax on other earnings;
- You had church employee income of $100 or more that was reported to you on Form W-2;
- You had tip income that is subject to social security tax, but you did not report those tips to your employer; OR
- You were a government employee with wages subject ONLY to the 1.45% Medicare part of the social security tax (Medicare qualified government wages) AND the total of **all** of your wages (subject to social security, railroad retirement, or the 1.45% Medicare tax) plus **all** your earnings subject to self-employment tax is **more** than $51,300.

Section A—Short Schedule SE (Read above to see if you must use the long Schedule SE on the back (Section B).)

1	Net farm profit or (loss) from Schedule F (Form 1040), line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a	1	14,781	
2	Net profit or (loss) from Schedule C (Form 1040), line 29, and Schedule K-1 (Form 1065), line 15a (other than farming). See Instructions for other income to report	2	—	
3	Combine lines 1 and 2. Enter the result	3	14,781	
4	Multiply line 3 by .9235. Enter the result. If the result is less than $400, **do not** file this schedule; you **do not** owe self-employment tax ▶	4	13650	
5	Maximum amount of combined wages and self-employment earnings subject to social security or railroad retirement (tier 1) tax for 1990	5	$51,300	00
6	Total social security wages and tips (from Form(s) W-2) and railroad retirement compensation (tier 1). **Do not** include Medicare qualified government wages on this line	6		
7	Subtract line 6 from line 5. Enter the result. If the result is zero or less, **do not** file this schedule; you **do not** owe self-employment tax ▶	7	51,300	
8	Enter the **smaller** of line 4 or line 7	8	13,650	
9	Rate of tax	9	×.153	
10	**Self-employment tax.** If line 8 is $51,300, enter $7,848.90. Otherwise, multiply the amount on line 8 by the decimal amount on line 9 and enter the result. Also enter this amount on Form 1040, line 48 **Note:** *Also enter one-half of this amount on Form 1040, line 25.*	10	2,088	

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule SE (Form 1040) 1990**

Form **4136**

Department of the Treasury
Internal Revenue Service

Credit for Federal Tax on Fuels

(And Credit for Purchase of Diesel-Powered Highway Vehicles)

▶ Attach this form to your income tax return.

OMB No. 1545-0162

1990

Attachment
Sequence No. **23**

Name (as shown on your income tax return)

Social security or employer identification number

Part I Diesel-Powered Highway Vehicle Credit

	(a) Number of Vehicles	(b) Rate	(c) Credit	
1 Diesel-powered cars		$102.00	$	
2 Diesel-powered light trucks and vans		198.00		
3 Total diesel-powered highway vehicle credit ▶			$	

Part II Fuel Tax Credit

Type of Fuel	(a) Type of Use (See table below.)	(b) Number of Gallons	(c) Rate	(d) Credit	
1 Gasoline		200	.091/.09 (.141*)	$ 18	20
2 Gasohol			.031/.03 (.087*)		
3 Diesel fuel		2400	.151/.15 (.201*)	362	40
4 Special motor fuels			.091/.09 (.141*)		
5 Gasoline used in aviation			.121/.12 (.151*)		
6 Aviation fuel (other than gasoline)			.141/.14 (.176*)		
7 Other (See instructions.)					
8 Total fuel tax credit ▶				$ 380	60

*This rate is only for fuel purchased and used after November 30, 1990.

Part III Total Income Tax Credit

Total income tax credit claimed (add line 3, column (c) in Part I and line 8, column (d) in Part II). Enter here and on Form 1040, line 60; Form 1120, line 32g; Form 1120-A, line 28g; Form 1120S, line 23c; Form 1041, line 24g; or the proper line of other returns ▶	$ 380	60

Type of Use Table

This table lists the uses for which you may claim a credit for fuels. See **Pub. 378,** Fuel Tax Credits and Refunds, for definitions of these uses.

- **a** On a farm for farming purposes
- **b** Off-highway business use
- **c** Export
- **d** Commercial fishing vessel
- **e** Intercity or local bus
- **f** School bus
- **g** Diesel fuel used in boats, used as heating oil, or used for nonbusiness off-highway use
- **h** Diesel fuel used in a qualified local bus
- **i** Supplies for aircraft
- **j** Commercial aviation
- **k** Helicopters
- **m** Gasoline used to make gasohol

Paperwork Reduction Act Notice.—We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us this information. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	6 hrs., 56 min.
Learning about the law or the form	6 min.
Preparing and sending the form to IRS	13 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the **IRS** and the **Office of Management and Budget** at the addresses listed in the instructions of the tax return with which this form is filed.

General Instructions

Purpose of Form.—Form 4136 is used by individuals, estates, trusts, or corporations to claim credit for Federal excise tax on fuels and to claim the credit for diesel-powered highway vehicles. (Partnerships cannot file this form; instead, they must attach a statement to **Form 1065,** U.S. Partnership Return of Income, showing the number of gallons of fuel allocated to each partner, the types of use, and the applicable tax rates.)

Requirements.—In order to claim a credit you must: (1) use the fuel for a purpose listed in the Type of Use Table; (2) buy the fuel at a price that included the tax; and (3) not have requested a refund of the tax.

Including Fuel Tax Credit in Income.—The amount of the credit on line 8, Part II, must be included in your gross income if you claimed the taxes paid as an expense deduction that reduced your income tax liability.

Additional Information on Credits.—See Pub. 378 for definitions and rules relating to the Federal excise tax and for information on claiming a quarterly refund of tax rather than waiting until you file your income tax return to claim a credit. **Pub. 225,** Farmer's Tax Guide; **Pub. 595,** Tax Guide for Commercial Fishermen; and **Pub. 510,** Excise Taxes for 1991— all contain information on the credit for fuels. They are available from many IRS offices, or you may call 1-800-829-FORM (3676) to order any publications needed.

Specific Instructions

Part I

Diesel-Powered Highway Vehicle.—If you bought a diesel-powered highway vehicle during the year for a use other than resale and you are the first purchaser, you may claim a one-time credit of $102 for an automobile and $198 for a light truck or van. The vehicle must be a diesel-powered highway vehicle that has at least four wheels, has a gross vehicle weight rating of 10,000 pounds or less, and is registered for highway use in the U.S. under the laws of any state. If you claim the credit for diesel-powered vehicles, for depreciation purposes you must reduce the basis of the vehicle by the credit claimed.

Part II

Amount of Fuel Credit.—The rate of tax imposed on fuels changed during 1990. Before September 1, 1990, the rate of tax included the Leaking Underground Storage Tank (LUST) tax. After August 31, 1990, and before December 1, 1990, the rate of tax does not include the LUST tax. After November 30, 1990, the rate of tax on fuels was increased and the LUST tax was reimposed.

Form **4797**

Department of the Treasury
Internal Revenue Service

Sales of Business Property

(Also, Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F)

▶ **Attach to your tax return.** ▶ **See separate Instructions.**

OMB No 1545-0184

1990

Attachment Sequence No **27**

Name(s) shown on return: Jerry Brown's Dairy Farm

Identifying number: 000-00-0008

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty and Theft—Property Held More Than 1 Year

1 Enter here the gross proceeds from the sale or exchange of real estate reported to you for 1990 on Form(s) 1099-S (or a substitute statement) that you will be including on line 2, 10, or 20 1

(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) LOSS ((f) minus the sum of (d) and (e))	(h) GAIN ((d) plus (e) minus (f))
2 Rsd Cows	1988	1-9-90	5 x 525.00	-0-	-0-		2,625

	(g)	(h)
3 Gain, if any, from Form 4684, Section B, line 21		
4 Section 1231 gain from installment sales from Form 6252, line 22 or 30		
5 Gain, if any, from line 32, from other than casualty and theft		1,357
6 Add lines 2 through 5 in columns (g) and (h)	( )	3,982
7 Combine columns (g) and (h) of line 6. Enter gain or (loss) here, and on the appropriate line as follows		3,982

Partnerships.—Enter the gain or (loss) on Form 1065, Schedule K, line 6. Skip lines 8, 9, 11, and 12 below.

S corporations.—Report the gain or (loss) following the instructions for Form 1120S, Schedule K, lines 5 and 6. Skip lines 8, 9, 11, and 12 below, unless line 7 is a gain and the S corporation is subject to the capital gains tax.

All others.—If line 7 is zero or a loss, enter the amount on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain as a long-term capital gain on Schedule D and skip lines 8, 9, and 12 below.

8 Nonrecaptured net section 1231 losses from prior years (see instructions)	
9 Subtract line 8 from line 7. If zero or less, enter -0-. Also enter on the appropriate line as follows (see instructions)	3,982

S corporations.—Enter this amount (if greater than zero) on Form 1120S, Schedule D, line 7, and skip lines 11 and 12 below.

All others.—If line 9 is zero, enter the amount from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below, and enter the amount from line 9 as a long-term capital gain on Schedule D.

Part II Ordinary Gains and Losses

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less)

Dairy Cows #21	1-6-90	4-13-90	446	—	800	354	

	(g)	(h)
11 Loss, if any, from line 7		
12 Gain, if any, from line 7, or amount from line 8 if applicable		
13 Gain, if any, from line 31		10,844
14 Net gain or (loss) from Form 4684, Section B, lines 13 and 20a		
15 Ordinary gain from installment sales from Form 6252, line 21 or 29		
16 Recapture of section 179 deduction for partners and S corporation shareholders from property dispositions by partnerships and S corporations (see instructions)		
17 Add lines 10 through 16 in columns (g) and (h)	(354)	10,844
18 Combine columns (g) and (h) of line 17. Enter gain or (loss) here, and on the appropriate line as follows		10,490

a For all except individual returns. Enter the gain or (loss) from line 18 on the return being filed.

b For individual returns:

(1) If the loss on line 11 includes a loss from Form 4684, Section B, Part II, column (b)(ii), enter that part of the loss here and on line 21 of Schedule A (Form 1040). Identify as from "Form 4797, line 18b(1)". See instructions . . . .

(2) Redetermine the gain or (loss) on line 18, excluding the loss, if any, on line 18b(1). Enter here and on Form 1040, line 15 10,490

For Paperwork Reduction Act Notice, see Instructions. PRINTED IN U.S.A. Form **4797** (1990)

H831 1040-35

ANSWERS TO ASSIGNMENTS - Income Tax
IV - 57

Form 4797 (1990) **Name** ______________________ **SSN/EIN** ______________ Page 2

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255

		Date acquired (mo., day, yr.)	Date sold (mo., day, yr.)
19	Description of section 1245, 1250, 1252, 1254, and 1255 property:		
A	JD Tractor	6-25-81	1-7-90
B	Mower	4-16-82	2-19-90
C	Dairy Cow # 41	2-17-89	10-23-90
D	Dairy Cow # 52	5-11-87	10-1-90

	Relate lines 19A through 19D to these columns ▶	Property A	Property B	Property C	Property D
20	Gross sales price (**Note:** *See line 1 before completing.*)	11,500	150	502	685
21	Cost or other basis plus expense of sale	10,250	290	395	850
22	Depreciation (or depletion) allowed or allowable	10,250	290	395	214
23	Adjusted basis. Subtract line 22 from line 21	-0-	-0-	-0-	636
24	Total gain. Subtract line 23 from line 20	11,500	150	502	44
25	**If section 1245 property:**				
a	Depreciation allowed or allowable from line 22	10,250	290	395	214
b	Enter the **smaller** of line 24 or 25a	10,250	150	395	49
26	**If section 1250 property:** If straight line depreciation was used, enter zero on line 26g unless you are a corporation subject to section 291				
a	Additional depreciation after 12/31/75 (see Instructions)				
b	Applicable percentage multiplied by the **smaller** of line 24 or line 26a (see Instructions)				
c	Subtract line 26a from line 24. If line 24 is not more than line 26a, skip lines 26d and 26e				
d	Additional depreciation after 12/31/69 and before 1/1/76				
e	Applicable percentage multiplied by the **smaller** of line 26c or 26d (see Instructions)				
f	Section 291 amount (corporations only)				
g	Add lines 26b, 26e, and 26f				
27	**If section 1252 property:** Skip this section if you did not dispose of farmland or if you are a partnership				
a	Soil, water, and land clearing expenses				
b	Line 27a multiplied by applicable percentage (see Instructions)				
c	Enter the **smaller** of line 24 or 27b				
28	**If section 1254 property:**				
a	Intangible drilling and development costs, expenditures for development of mines and other natural deposits, and mining exploration costs (see Instructions)				
b	Enter the **smaller** of line 24 or 28a				
29	**If section 1255 property:**				
a	Applicable percentage of payments excluded from income under section 126 (see Instructions)				
b	Enter the **smaller** of line 24 or 29a				

Summary of Part III Gains (Complete property columns A through D, through line 29b before going to line 30.)

30	Total gains for all properties. Add columns A through D, line 24	12,201
31	Add columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13. (See the Instructions for Part IV if this is an installment sale.)	10,844
32	Subtract line 31 from line 30. Enter the portion from casualty and theft on Form 4684, Section B, line 15. Enter the portion from other than casualty and theft on Form 4797, line 5	1,357

Part IV Election Not to Use the Installment Method (Complete this part only if you elect out of the installment method and report a note or other obligation at less than full face value.)

33 Check here if you elect out of the installment method ▶ ☐

34 Enter the face amount of the note or other obligation ▶ $ ________

35 Enter the percentage of valuation of the note or other obligation ▶ ________ %

Part V Recapture Amounts Under Sections 179 and 280F When Business Use Drops to 50% or Less (See Instructions for Part V.)

		(a) Section 179	(b) Section 280F
36	Section 179 expense deduction or section 280F recovery deductions		
37	Depreciation or recovery deductions (see Instructions)		
38	Recapture amount. Subtract line 37 from line 36. (See Instructions for where to report.)		

H831 1040-35A PRINTED IN U.S.A.

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

(And Reconciliation of Forms 1099-B for Bartering Transactions)

► **Attach to Form 1040.** ► **See Instructions for Schedule D (Form 1040).**
► **For more space to list transactions for lines 2a and 9a, get Schedule D-1 (Form 1040).**

OMB No. 1545-0074
1990
Attachment Sequence No. **12A**

Name(s) shown on Form 1040 | **Your social security number**

1 Enter the total sales of stocks, bonds, other securities, and real estate transactions reported to you for 1990 on Forms 1099-B and 1099-S (or on substitute statements). If this total is not the same as the total of lines 2c and 9c, column (d), attach a statement explaining the difference. (Do not include on this line amounts from Form 1099-S if you reported them on another form or schedule.) **See Instructions for line 1** **1**

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) LOSS If (e) is more than (d) subtract (d) from (e)	(g) GAIN If (d) is more than (e), subtract (e) from (d)
2a Stocks, Bonds, Other Securities, and Real Estate. Include Form 1099-B and 1099-S Transactions. See Instructions.						
25 Shares Ht. Corp	12-1-89	3-5-90	380 00	430 00	50 00	
2b Amounts from Schedule D-1, line 2b (attach Schedule D-1)						
2c Total of All Sales Price Amounts. Add column (d) of lines 2a and 2b ► **2c**			380 00			
2d Other Transactions (Do NOT include real estate transactions from Forms 1099-S. Report them on line 2a.)						

			(f)	(g)
3	Short-term gain from sale or exchange of your home from Form 2119, line 10 or 14c	3		
4	Short-term gain from installment sales from Form 6252, line 22 or 30	4		
5	Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries -(+)	5		
6	Short-term capital loss carryover from 1989 Schedule D, line 29	6		
7	Add lines 2a, 2b, 2d, and 3 through 6, in columns (f) and (g)	7	(50)	
8	**Net short-term gain or (loss).** Combine columns (f) and (g) of line 7	8		(50)

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a)	(b)	(c)	(d)	(e)	(f)	(g)
9a Stocks, Bonds, Other Securities, and Real Estate. Include Form 1099-B and 1099-S Transactions. See Instructions.						
40 Shares H.T Corp	2-1-76	7-1-90	1000 00	255 00		745
9b Amounts from Schedule D-1, line 9b (attach Schedule D-1)						
9c Total of All Sales Price Amounts. Add column (d) of lines 9a and 9b ► **9c**			1000 00			
9d Other Transactions (Do NOT include real estate transactions from Forms 1099-S. Report them on line 9a.)						

			(f)	(g)
10	Long-term gain from sale or exchange of your home from Form 2119, line 10 or 14c	10		
11	Long-term gain from installment sales from Form 6252, line 22 or 30	11		
12	Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries -(+)	12		
13	Capital gain distributions	13		
14	Gain from Form 4797, line 7 or 9	14		3982
15	Long-term capital loss carryover from 1989 Schedule D, line 36	15		
16	Add lines 9a, 9b, 9d, and 10 through 15, in columns (f) and (g)	16	(—)	4,727
17	**Net long-term gain or (loss).** Combine columns (f) and (g) of line 16	17		4,727

For Paperwork Reduction Act Notice, see Form 1040 Instructions. PRINTED IN U.S.A. **Schedule D (Form 1040) 1990**
H831 1040-7

Name(s) shown on Form 1040

Your social security number

Part III Summary of Parts I and II

18 Combine lines 8 and 17, and enter the net gain or (loss) here. If the result is a gain, **stop here** and also enter the gain on Form 1040, line 13 . . . 18 4,677 00

19 If line 18 is a (loss), enter here and as a (loss) on Form 1040, line 13, the **smaller** of:

a The (loss) on line 18; or

b ($3,000) or, if married filing a separate return, ($1,500) . . . 19 ( )

Note: *When figuring whether line 19a or 19b is* **smaller**, *treat both numbers as if they were positive.*

Go on to Part IV if the loss on line 18 is more than $3,000 ($1,500, if married filing a separate return), OR if taxable income on Form 1040, line 37, is zero.

Part IV Capital Loss Carryovers from 1990 to 1991

Section A.—Carryover Limit

20 Enter taxable income from Form 1040, line 37. **(If Form 1040, line 37 is zero, see Instructions for amount to enter.)** . . . 20

Note: *For lines 21 through 36, enter all amounts as positive numbers.*

21 Enter the loss on line 19 . . . 21

22 Enter the amount on Form 1040, line 36 . . . 22

23 Combine lines 20, 21, and 22. If zero or less, enter -0- . . . 23

24 **Carryover Limit.** Enter the **smaller** of line 21 or line 23 . . . 24

Section B.—Short-Term Capital Loss Carryover to 1991

(Complete this section only if there is a loss on both line 8 and line 19. Otherwise, go on to Section C.)

25 Enter the loss on line 8 . . . 25

26 Enter the gain, if any, on line 17 . . . 26

27 Enter the amount on line 24 . . . 27

28 Add lines 26 and 27 . . . 28

29 **Short-term capital loss carryover to 1991.** Subtract line 28 from line 25. If zero or less, enter -0- . . . 29

Section C.—Long-Term Capital Loss Carryover to 1991

(Complete this section only if there is a loss on both line 17 and line 19.)

30 Enter the loss on line 17 . . . 30

31 Enter the gain, if any, on line 8 . . . 31

32 Enter the amount on line 24 . . . 32

33 Enter the amount, if any, on line 25 . . . 33

34 Subtract line 33 from line 32. If zero or less, enter -0- . . . 34

35 Add lines 31 and 34 . . . 35

36 **Long-term capital loss carryover to 1991.** Subtract line 35 from line 30. If zero or less, enter -0- . . . 36

Part V Election Not to Use the Installment Method (Complete this part only if you elect out of the installment method and report a note or other obligation at less than full face value.)

37 Check here if you elect out of the installment method . . . ▶ ☐

38 Enter the face amount of the note or other obligation . . . ▶

39 Enter the percentage of valuation of the note or other obligation . . . ▶

Part VI Reconciliation of Forms 1099-B for Bartering Transactions

(Complete this part if you received one or more Forms 1099-B or substitute statements reporting bartering income.)

Amount of bartering income from Form 1099-B or substitute statement reported on form or schedule

40 Form 1040, line 22 . . . 40

41 Schedule C (Form 1040) . . . 41

42 Schedule D (Form 1040) . . . 42

43 Schedule E (Form 1040) . . . 43

44 Schedule F (Form 1040) . . . 44

45 Other form or schedule (identify) (if nontaxable, indicate reason—attach additional sheets if necessary): . . . 45

46 Total (add lines 40 through 45) . . . 46

Note: *The amount on line 46 should be the same as the total bartering income on all Forms 1099-B and substitute statements received for bartering transactions.*

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code John Doe Rt1 Someplace, OK 74000		1 Rents $	OMB No. 1545-0115 **1990** Statement for Recipients of	**Miscellaneous Income**
		2 Royalties $		
		3 Prizes, awards, etc. $		
PAYER'S Federal identification number 999-99-9 99	RECIPIENT'S identification number 000-00-0001	4 **Federal income tax withheld** $	5 Fishing boat proceeds $	**Copy B For Recipient** This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name Jon Smith		6 Medical and health care payments $	7 Nonemployee compensation $ 600.00	
Street address Rt 1		8 Substitute payments in lieu of dividends or interest $	9 Payer made direct sales of $5,000 or more of consumer products to a buyer (recipient) for resale ▶ ☐	
City, state, and ZIP code Somewhere, OK 74000		10 Crop insurance proceeds $	11 State income tax withheld $	
Account number (optional)		12 State/Payer's state number		

Form **1099-MISC**

Department of the Treasury - Internal Revenue Service

Instructions for Recipient

If you are an individual, report the taxable amounts shown on this form on your tax return, as explained below. (Other taxpayers, such as fiduciaries or partnerships, report the amounts on the corresponding lines of your tax return.)

Boxes 1 and 2.—Report on Schedule E (Form 1040), or Schedule C (Form 1040) if you provided services that were primarily for your customer's convenience, such as regular cleaning, changing linen, or maid service.

Box 3.—Report on the line for "Other income" on Form 1040 and identify the payment. If it is trade or business income, report this amount on Schedule C or F (Form 1040).

Box 4.—Shows backup withholding. For example, persons not furnishing their taxpayer identification number to the payer become subject to backup withholding at a 20% rate on certain payments. See **Form W-9,** Request for Taxpayer Identification Number and Certification, for information on backup withholding. **Include this on your income tax return as tax withheld.**

Box 5.—An amount in this box means the fishing boat operator considers you self-employed. Report this amount on Schedule C (Form 1040). See **Publication 595,** Tax Guide for Commercial Fishermen.

Box 6.—Report on Schedule C (Form 1040).

Box 7.—Generally, this amount is considered income from self-employment. Report it as part of your trade or business income on Schedule C or F (Form 1040). If you are not self-employed, amounts paid to you for services rendered are generally reported on Form 1040 on the line for "Wages, salaries, tips, etc."

If there are two amounts shown in this box, one may be labeled "EPP." This represents excess golden parachute payments. You must pay a 20% excise tax on this amount. See your Form 1040 instructions under "Other Taxes." The unlabeled amount is your total compensation.

Box 8.—Report as "Other income" on your tax return. The amount shown is substitute payments in lieu of dividends or tax-exempt interest received by your broker on your behalf after transfer of your securities for use in a short sale.

Box 9.—An entry in the checkbox means sales to you of consumer products on a buy-sell, deposit-commission, or any other basis for resale have amounted to $5,000 or more. The person filing this return does not have to show a dollar amount in this box. Any income from your sale of these products should generally be reported on Schedule C (Form 1040).

Box 10.—Report on the line for "Crop insurance proceeds" on Schedule F (Form 1040).

Certain amounts shown on this form may be subject to self-employment (social security) tax computed on **Schedule SE (Form 1040).** See **Publication 533,** Self-Employment Tax, for more information on amounts considered self-employment income. Since no income or social security taxes are withheld by the payer, you may have to make estimated tax payments if you are still receiving these payments. See **Form 1040-ES,** Estimated Tax for Individuals.

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WRITTEN TEST | **INCOME TAX FORMS** | **IV**

NAME______________________________SCORE ____

OBJECTIVE 1

Match terms associated with income tax forms to their correct definitions. Write the correct letters in the blanks provided.

Part I

____ 1. For income tax purposes, any property owned and used for personal purposes, pleasure, or investment

____ 2. Sum of the expected income tax and self-employment tax minus expected withholdings and credits

____ 3. Adjusted gross income less the sum of excess itemized deductions and personal exemptions

____ 4. Property used in the farming business or for the production of rents or royalties and held more than one year; any property held more than one year that is subject to involuntary conversion

____ 5. Person who occupies a position of special confidence toward others

____ 6. Repayment of a loan with a regular series of payments over a specified period of time

____ 7. Any asset that is not a capital asset

____ 8. Gain realized from the sale of a capital asset when the asset is sold for more than its adjusted basis

____ 9. Decline in the value of an asset due to wear and tear, action of elements, and obsolescence

a. Amortization

b. Taxable income

c. Fiduciary

d. Capital assets

e. Estimated tax

f. Depreciation

g. Ordinary asset

h. Capital gain

i. Property used in farming

Part II

____ 1. Loss realized from the sale of a capital asset when the asset is sold for less than its adjusted basis

____ 2. Election to treat qualifying property as an expense rather than a capital expenditure

____ 3. Property that is subject to both business and personal use

____ 4. The using up of natural resources by the process of mining, quarrying, drilling, and felling

____ 5. Original cost of an asset plus the value of improvements or alterations less the cost of depreciation, losses, or depletion

____ 6. Legal entity separate and distinct from shareholders who own it, from the individuals who manage it, or from its employees

____ 7. Laying out of funds in a business with the view of obtaining an income or profit

____ 8. An individual who owns, manages, assumes all the risk, and derives all the profits from a business

____ 9. Credit against or reduction in federal income tax equal to 10 percent of qualified investments

___ 10. Created when two or more persons join together to conduct a business and to share in its profits and losses.

a. Investment
b. Investment tax credit
c. Capital loss
d. Corporation
e. Partnership
f. Section 179 deduction
g. Depletion
h. Listed property
i. Sole proprietorship
j. Adjusted basis

OBJECTIVE 2

Select from a list factors to consider in determining filing status. Mark each correct answer with an "X" in the blanks provided.

____1. Class members must file if they are widows or widowers with dependent children and earn over $6,950, if under age 65, or over $7,550, if over 65

____2. Class members must file if self-employed and net earnings from self-employment are at least $400

____3. Class members, generally, will never have to file an income tax return because of self-employment

____4. Class members must file if married, filing jointly, living with their spouse and earn at least $8,900; if both are under age 65, $9,500; if one is 65 or older, or $10,100

____5. Class members must file if they are self-employed and net earning from self-employment is at least $650

____6. Class members must file if single, legally separated, divorced, or married by living apart from their spouse for the entire year; and earn at least $4,950, if under the age of 65, or $5,700, if over the age 65

____7. Class members must file if they are a widow or widower with dependent children and earn over $9,550, are under age 65 and spouse has died within the past two years or if they are over age 65 and earned more than $10,200.

____8. Class members must file if they can be claimed as a dependent on their parents' return and have taxable dividends, interest, or other unearned income of $500 or more

OBJECTIVE 3

State when to file your income form. Write your answer in the space provided.

____

____

____

____

____

OBJECTIVE 4

Discuss factors to consider in filling out Form 1040. Write five factors in the blanks provided.

____

____

____

OBJECTIVE 5

Match types of income tax forms usually used by farmers to their correct descriptions. Write the correct letters in the blanks provided.

Part I

___ 1. Individual income tax return

___ 2. List of nonbusiness deductions

___ 3. List of interest and dividend income

___ 4. List of all farm income and deductions which determines net farm profit or loss

___ 5. Used to figure Social Security self-employment tax

___ 6. Used to show gains and losses of capital assets

___ 7. Used to report gains and loss from the sale or exchange of business property and from certain involuntary conversions

___ 8. Used to report gains and losses from casualty and theft of business and personal use property

___ 9. Used to figure the tax from recomputing a prior years investment credit

___ 10. Used to figure the tax credit on gasoline, special fuels, and lubricating oil

___ 11. Employers annual tax return for agricultural employees

a. Schedule D (1040)

b. Form 4684

c. Schedule SE (1040)

d. Schedule A (1040)

e. Form 943

f. Form 4797

g. Form 1040

h. Form 4136

i. Form 4255

j. Schedule B (1040)

k. Schedule F (1040)

Part II

___ 1. Used to declare an estimate of tax if you choose

___ 2. Used by farmers to figure any underpayment of estimated tax and the underpayment of penalty

___ 3. Used to summarize and transmit the various 1099 Forms

___ 4. Information return used to report the total payment of $600 or more made during the year to another person in the course of your trade or business

___ 5. Used to figure the alternative minimum tax

___ 6. Employers annual federal unemployment tax return

___ 7. Wage and tax statement

___ 8. Federal use tax return on highway motor vehicles

___ 9. Information return showing the income and deductions of a partnership

___ 10. Corporation income tax return filed by ordinary corporation

___ 11. Small business corporation income tax return used by Subchapter S Corporations

___ 12. Used to claim deductions for expenses to conserve soil, water, or to prevent erosion

a. Form 1096

b. Form 1099

c. Form 1120

d. Form 1120-S

e. Form 1040-ES

f. Form W-2

g. Form 1065

h. From 2210-F

i. Form 8645

j. Form 6251

k. Form 2290

l. Form 940

NOTICE The following assignment sheets are not part of the written test. If these activities have not been completed, check with your instructor.

OBJECTIVE 6 **Complete Schedule F, Form 1040.** SCORE ________

OBJECTIVE 7 **Compute employer's annual tax return for agricultural employees using Form 943.** SCORE ________

OBJECTIVE 8	Compute Social Security self-employment tax.	SCORE ________
OBJECTIVE 9	Compute investment tax credit on Form 3468.	SCORE ________
OBJECTIVE 10	Determine capital gains and losses on Form 4797 and Schedule D.	SCORE ________
OBJECTIVE 11	Complete Form 1099-Misc.	SCORE ________

WRITTEN TEST ANSWERS

INCOME TAX FORMS

IV

OBJECTIVE 1

Part I	Part II
1. d	1. c
2. e	2. f
3. b	3. h
4. i	4. g
5. c	5. j
6. a	6. d
7. g	7. a
8. h	8. i
9. f	9. b
	10. e

OBJECTIVE 2

1, 2, 4, 6, 8

OBJECTIVE 3

Answer should include:

- File an estimate of your tax and pay this amount by January 15 of the following year, then file the return for the prior year and pay any balance due by April 15.
- File your prior year's return and pay the tax on or before March 1.
- Certain information returns must be filed by January 31.
- Corporations must file a calendar year tax return by March 15.
- Partnerships must file a calendar year tax return by April 15.
- Franchise tax returns (state) for corporations are due July 1 (Oklahoma).

OBJECTIVE 4

Answer should include:

- Determine whether the individual was married or single.
- One exemption is allowed for the individual filing the return; exemptions also are allowed for a spouse, being 65 or older and blind, and having dependents, such as children, mother, or father.
- All wages should be reported.
- Some income may not need to be reported.
- Class member may adjust taxable income with employee business expenses, payment to an Individual Retirement Account (IRA), payment to Keogh (H.R.10) Retirement Plan, or the self-employed health insurance deduction.

OBJECTIVE 5

Part I	Part II
1. g	1. e
2. d	2. h
3. j	3. a
4. k	4. b
5. c	5. j
6. a	6. l
7. f	7. f
8. b	8. k
9. i	9. g
10. h	10. c
11. e	11. d
	12. i

OBJECTIVES 6-11

Refer to answers to Assignment Sheets 1 through 6.